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Department of the Treasury
Internal Revenue Service

1985 Package X

Informational Copies of Federal Tax Forms

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Please Use the Simpler Tax Forms

Practitioners should use the simplest tax form for a client's particular tax situati In many cases during the 1985 filing season, Forms 1040, 1040A, and 1120 we filed when Forms 1040A and/or 1040EZ, or 1120-A could have been used. Usi simpler forms such as Forms 1040EZ, 1040A, and 1120-A will shorten return preparation time and the IRS will be able to process the returns more quickly an a lower cost.

Recordkeeping and Substantiation Requirements

See page 1 for an explanation of important changes to recordkeeping and substantiation requirements resulting from the enactment of Public Law 99-44, Repeal of Contemporaneous Recordkeeping Requirements.

OCR Forms

Many IRS forms are now printed in special colored inks to permit processing by optical character recognition (OCR) equipment. Photocopied OCR forms must b manually processed, which is costly and time-consuming. We urge you to use th IRS form or an approved substitute (see *General Requirements for Substitute Fo* on page 1).

Completing Schedule D (Form 1040)

When preparing Schedule D (Form 1040) for clients who received one or more Forms 1099-B or equivalent statements reporting sales of stocks, bonds, etc., or bartering income, be sure to complete Parts I and VII, which reconcile Forms 10 B with the tax return.

The Following Form Has Been Deleted from Package X:

Form 1099-OID, Statement for Recipients of Original Issue Discount

The Following Forms and Instructions Have Been Added to Package X:

Form 1099-DIV, Statement for Recipients of Dividends and Distributions

Form 4506, Request for Copy of Tax Form or Tax Account Information

Form 6198, Computation of Deductible Loss From an Activity Described in Section 465(c)

Form 8283, Noncash Charitable Contributions

Form 8332, Release of Claim to Exemption for Child of Divorced or Separated Parents

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T22.2/12:

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Recordkeeping and Substantiation Requirements

The contemporaneous recordkeeping requirements imposed by the Tax Reform Act of 1984 have been repealed as if they had never been enacted. The related return preparer requirements to advise taxpayers of the contemporaneous recordkeeping rules and to obtain written confirmation from taxpayers of the existence of such records, and preparer penalties for failure to do the foregoing, have also been repealed.

For 1985, the previous substantiation rules of Internal Revenue Code section 274(d) were reinstated. For tax years beginning after December 31, 1985, the section 274(d) rules, requiring that tax deductions and credits be substantiated by adequate records or by sufficient evidence corroborating the taxpayer's own statement, will be extended to section 280F(d)(4) listed property, which includes automobiles and computers. However, the rules will not apply to any vehicle which, by reason of its nature, is not likely to be used more than a de minimis amount for personal purposes. For tax years beginning after December 31, 1984, filers of **Form 2106**, Employee Business Expenses, and **Form 4562**, Depreciation and Amortization, will have to answer specific questions on those forms regarding the use of listed property and the evidence that supports that use.

General Information

For obligations of preparers , and information on penalties, please get **Publication 1045**, Information and Order Blanks for Preparers of Federal Income Tax Returns.

If you did not receive a copy of Publication 1045 in the mail, you may get a copy by writing to your local District Director, Internal Revenue Service. Ask that your name be added to the **Tax Practitioner Mailing File.** Next year you should receive, in addition to Publication 1045, periodic newsletters from your local District Director.

Publication 1045 contains the order blanks you will need to request bulk supplies of Federal tax forms. It has instructions on how to order these forms, descriptions of some principal Federal tax forms, and other information of general interest to preparers of Federal tax returns.

The order blanks in the 1985 edition of Publication 1045 are the only forms that will be accepted for processing by our order fulfillment centers. Correspondence, prior years' order forms, or telephone requests for more than a total of 100 form units will be returned to the requester with a set of tax year 1985 order blanks for reordering.

Using Forms in Package X

The forms in this package are actual size. You may copy these facsimiles when you need only a few copies (unless the form in Package X indicates otherwise; see *OCR Forms* and *Proof Copies of Forms* below). We encourage you to do so and not order small quantities. You may also use the facsimiles as camera copy for printing. You should remove the circled page numbers before reproducing. Exhibited forms that have no special notes may be reproduced on white paper using black ink.

All official forms, including those not specifically mentioned in the general requirements printed below, must have a 4½ inch wide by ½ inch deep margin in the upper right corner, which is kept free from staples or from any marking that could interfere with the legibility of imprinted data.

If you decide to print reproductions, please refer to *General Requirements for Substitute Forms* printed below and to the restrictions for reproducing some of the forms.

OCR Forms.—Many IRS forms are now printed in special colored inks to permit processing by optical character recognition (OCR) equipment. We have identified these forms in Package X by means of the following overlay: **OCR Form—Do NOT Photocopy.** Copies of these forms in Package X should not be used.

Proof Copies of Forms.—Some forms and instructions in Package X are proof copies (indicated by an overlay). These had not yet received final approval when Package X went to print. They are included for informational purposes only and must not be reproduced or filed. Final approved reproducible copies will be available in most libraries. Ask for **Publication 1132**, Reproducible Federal Tax Forms for Use in Libraries.

Assembling Tax Returns

Be sure to attach forms and schedules in order of the sequence number that is shown below the year in the upper right corner of the form or schedule. IRS forms and schedules without sequence numbers follow next in numerical order. Attach separate sheets at the end of the return. For further information, see the instructions in the tax packages.

General Requirements for Substitute Forms

- **Privately Designed and Printed,**
- **Computer-Prepared, and**
- **Computer-Generated**

In many cases you must get IRS approval if you change IRS forms.

IRS is continuing its effort to identify and contact tax return preparers who are using substitute forms that impede returns processing.

The requirements for most substitute forms are explained in a revenue procedure issued as Publication 1167. Highlights of the requirements and permitted changes found in this publication are below.

You can get copies of this publication by completing and mailing the order blanks on page 3.

Office of Management and Budget (OMB) Requirements for Substitute Forms

The Paperwork Reduction Act of 1980 requires OMB approval of IRS tax forms. The OMB approval number and expiration date (if any) must appear in the upper right corner of the form, and the form (or its instructions) must state why the IRS is collecting the information, how it will be used, and whether or not the information is required to be furnished.

Substitute IRS forms must likewise contain the OMB approval number and the expiration date (if any) in the upper right corner of the form. You must also inform the users of your substitute forms of the IRS use and collection requirements stated in the instructions for the official IRS form. The OMB approval number and the expiration date (if any) may be obtained from official IRS printed forms, reproduction proofs, or from the IRS.

Allowable and Unallowable Changes to and Uses for Tax Forms

Privately Designed and Printed Tax Forms

You can photocopy any Federal tax form or schedule and use it instead of the official one. However, we urge filers of OCR forms to use the IRS version or an approved substitute. **Note:** *Photocopies of certain OCR forms cannot be filed.*

You can reproduce any current tax forms as cut sheets, snapsets, or marginally-punched pin-fed forms, as long as you use an official IRS version as the master copy. Official versions are supplied by IRS, such as those in the taxpayer's tax package, those in Package X (except proof copies and OCR forms), and reproduction proofs sold by IRS.

You can print and duplicate the substitute "worksheet-type" versions of Schedules A and B of Form 1040 (shown as exhibits in the revenue procedure) for use when you need a worksheet. IRS will accept these substitute schedules instead of the official versions. These schedules serve different purposes: One allows the form to contain state tax information which is blocked out before filing with IRS. The other allows the form to be used singly or as part of a snap-set.

Generally, **you cannot change** an IRS tax form or use your own version without prior IRS approval. However, in some cases you may use substitute Schedules K-1 without prior IRS approval, as explained in the instructions for Forms 1041, 1065, and 1120S.

You cannot change any of the graphics on Forms 1040, 1040A, or 1040EZ (except those specified in the revenue procedure) without prior IRS approval.

You cannot use your own unapproved version of Schedule A (Form 1040), Itemized Deductions. IRS wants only one Schedule A—either yours or ours; yours needs prior approval from IRS.

You cannot use your own preprinted label on tax returns filed with IRS. The ONLY label permitted is the one provided the taxpayers in their tax packages. Otherwise, the taxpayer's name, address, and other identifying information must be entered on the return in the spaces provided.

Computer-Prepared Tax Forms

You can adjust the graphics on certain specified areas of printed Forms 1040, 1040A, or 1040EZ (and other forms) to allow for computer-printed or word processor fill-in. Only the areas listed in the revenue procedure may be adjusted without specific approval.

You can fill in official IRS supplied forms using computer or word-processing equipment. Most IRS forms are designed for a vertical spacing of six lines to the inch, with money amount columns wide enough to contain ten characters.

Computer-Generated Tax Forms

You can duplicate the approved, computer-generated formats of Schedules A, B, C, D, E, F, G, R, SE, and W (shown as exhibits in the revenue procedure) and use them without prior approval. Generally, any change to these exhibits requires approval before use.

You can use certain other computer-generated forms without prior IRS approval. If you want to design such forms and if you agree to observe the requirements and conditions listed in the revenue procedure, be sure to follow carefully the directions in the revenue procedure.

You cannot computer-generate a tax return that requires a signature and establishes tax liability (for example, Forms 1040, 1040A, and 1120). The return must be printed by conventional means, such as photocopy, photo-offset, computer graphics, or photoengraving. It may be filled in using a computer or word processor, but the return itself must be a printed IRS version or an approved printed substitute.

If You Plan To Change or Modify Any Tax Form

IRS **cannot approve** your substitute form until the official form has been published. Please propose your substitute after you have examined the official form.

Approval is for the calendar year. Generally, you need separate approval for each new filing period even if the official form does not change.

You should know the IRS revenue procedure relating to the official form before you attempt to alter the form to meet your needs. Any alteration of forms must be within the limits acceptable to the Internal Revenue Service. It is possible that, from one filing period to another, a change in law or a change in internal need (processing, audit, compliance, etc.) may change the allowable limits for the alteration of the official form. The allowable limits are contained in the current revenue procedure which governs your proposed substitute form.

For the most frequently used tax forms, the quickest way to obtain an official form is to request reproduction proofs of these forms. These cost $1.00 per page and are ordered on **Form 6747**, Order for Reproduction Proofs. The order form may be obtained by written request to:

Internal Revenue Service
Attn: Reproduction Proof Coordinator
PM:S:FM:P, Room 1528
1111 Constitution Avenue, N.W.
Washington, DC 20224.

Form **2333P**

Department of the Treasury
Internal Revenue Service

Order Blank for Revenue Procedures

1985

Please send the original copy to the address on the back	Name	**Employer identification number**
	Address (number and street)	Telephone number ( )
	City, state and ZIP code	

Do you need copies of revenue procedures?

If so, check the appropriate box(es) and follow the instructions below.

DO NOT USE THIS ORDER BLANK TO ORDER ANY OTHER ITEMS.

(See instructions on page 1, General Information, for ordering other items.)

Please send me a copy of:

☐ Pub. 1141, the revenue procedure on specifications for private printing of Forms W-2, W-2P, and W-3.
☐ Pub. 1149, the revenue procedure on magnetic tape reporting for Windfall Profit Tax (Form 6248).
☐ Pub. 1161, the revenue procedure on paper substitutes for Form 1042S.
☐ Pub. 1162, the revenue procedure on group exemption procedures.
☐ Pub. 1167, the revenue procedure on substitute printed, computer-prepared, and computer-generated tax forms and schedules.
☐ Pub. 1179, the revenue procedure on paper substitute information returns (Forms 1099 Series, 1098, 5498, 1096, W-2G, and W-3G).
☐ Pub. 1220, the revenue procedure on magnetic tape reporting for information returns (Forms 1099 Series, 1098, 5498, 1096, and W-2G).
☐ Pub. 1223, the revenue procedure on substitute Forms W-2c and W-3c.
☐ Pub. 1253, the revenue procedure on magnetic cassette/mini-disk reporting for information returns (Forms 1099 Series, 1098, 5498, 1096, and W-2G).
☐ Pub. 1255, the revenue procedure on magnetic diskette reporting for information returns (Forms 1099 Series, 1098, 5498, 1096, and W-2G).

Mailing Instructions

Fold this page in half on the fold line on the back of this sheet, staple it, and mail.

Mailing Labels

Please fill out the mailing labels below. They will be used to return your copy of the revenue procedures to you.

Please fill in both labels

Internal Revenue Service

RP

Name

Address (number and street)

City, state and ZIP code

Internal Revenue Service

RP

Name

Address (number and street)

City, state and ZIP code

Staple Here

Fold on this line and staple at bottom of page.

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2 Employer's name, address, and ZIP code		3 Employer's identification number	4 Employer's State number
		5 Statutory employee ☐ Deceased ☐ Legal rep. ☐ 942 emp. ☐ Subtotal ☐ Void ☐	
		6 Allocated tips	7 Advance EIC payment
8 Employee's social security number	9 Federal income tax withheld	10 Wages, tips, other compensation	11 Social security tax withheld
12 Employee's name (first, middle, last)		13 Social security wages	14 Social security tips
		16 *	
		17 State income tax | 18 State wages, tips, etc. | 19 Name of State	
15 Employee's address and ZIP code		20 Local income tax | 21 Local wages, tips, etc. | 22 Name of locality	

OCR Form
Do NOT Photocopy

Form **W-2 Wage and Tax Statement 1985**

Copy A For Social Security Administration
* See Instructions for Forms W-2 and W-2P

Department of the Treasury
Internal Revenue Service

Do NOT CUT or Separate Forms on This Page

Notice to Employee:

You must file a tax return regardless of your income if any amount is shown in box 7, Advance EIC (earned income credit) payment.

File Copy B of this form with your 1985 Federal income tax return. Attach Copy 2 to your 1985 State or local income tax return. Please keep Copy C for your records. You can use it to prove your right to social security benefits. If your name, social security number, or address is incorrect, please correct Copies B, C, and 2 and tell your employer.

If you have already filed your tax return and the information from this W-2 was not included, please amend your Form 1040, 1040A, or 1040EZ by filing Form 1040X.

If you will owe income tax (after withholding) of $500 or more in 1986, and if you had *any* income tax liability for 1985, file a new Form W-4, Employee's Withholding Allowance Certificate, with your employer to have more tax withheld or file **Form 1040-ES,** Estimated Tax for Individuals, and pay the tax in installments during the year.

If you retired during 1985 or plan to retire soon, you may have to pay tax on your income either by filing Form 1040-ES or by having tax withheld from your pension or annuity. See **Publication 505,** Tax Withholding and Estimated Tax, for details.

Credit for Social Security Tax.—If more than one employer paid you wages during 1985 and more than the maximum social security employee tax, railroad retirement (RRTA) tax, or combined social security and RRTA tax was withheld, you can claim the excess as a credit against your Federal income tax. (Please see your Federal income tax return instructions.) The social security rate of 7.05% includes 1.35% for hospital insurance benefits and 5.7% for retirement, survivors, and disability insurance.

Instructions for Preparing Form W-2

The 6-part wage and tax statement is acceptable in most States. If you are in doubt, ask your appropriate State or local official. Please make sure that all copies are legible.

Prepare Form W-2 for each of your employees to whom any of the following items applied during 1985:

(a) You withheld income tax or social security tax.
(b) You would have withheld income tax if the employee had not claimed more than one withholding allowance.
(c) You paid $600 or more.
(d) You paid any amount for services, if you are in a trade or business. Include the cash value of any payment you made that was not in cash.

By January 31, 1986, give Copies B, C, and 2 to each person who was your employee during 1985. For anyone who stopped working for you before the end of 1985, you may give copies any time after employment ends. If the employee asks for Form W-2, give him or her the completed copies within 30 days of the request or the final wage payment, whichever is later. Send Copy A to the Social Security Administration by February 28, 1986. (For more information, please see Forms 941, 942, W-3, or Circular E. Farmers, see Circular A.)

See separate **Instructions for Forms W-2 and W-2P** for more information on how to complete Form W-2.

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

1985

Department of the Treasury
Internal Revenue Service

Instructions for Forms W-2 and W-2P

Highlights

If possible, please file Forms W-2 and W-2P either alphabetically by employees' last name or numerically by employees' SSN. This will help the Social Security Administration locate specific forms if there is trouble processing your submission.

General Instructions

(Section references are to the Internal Revenue Code, unless otherwise noted.)

A. Who Must File Forms W-2 and W-2P.—

(1) Form W-2, Wage and Tax Statement.—To be filed by employers. (See Circular A, Agricultural Employer's Tax Guide, or Circular E, Employer's Tax Guide. Household employers, see Form 942 instructions.)

(2) Form W-2P, Statement for Recipients of Annuities, Pensions, Retired Pay, or IRA Payments.—To be filed by employees' trusts or funds; Federal, State, or local government systems; life insurance companies; and other payers who make such payments.

B. When to File.—File Forms W-2 and W-2P with accompanying Forms W-3, Transmittal of Income and Tax Statements, by February 28, 1986.

C. Where to File.—See Form W-3.

D. Calendar Year Basis.—You must base entries on Forms W-2 and W-2P on a calendar year.

E. Taxpayer Identification Numbers.—We use them to check the payments you report against the amounts shown on the employees' tax returns. Be sure to show the right social security number on the Forms W-2 or W-2P, or on magnetic media.

Persons in a trade or business use an employer identification number (00-0000000). This includes employee trusts, retirement systems, and so forth. Individuals use a social security number (000-00-0000). When you list a number, please separate the nine digits properly to show the kind of number.

Sole proprietors who are payers should show their employer identification number on the statements they prepare. But if you prepare a statement showing payment to a sole proprietor, give the proprietor's social security number in box 8 of Form W-2 or Form W-2P.

Please show the full name, address, and identification number of the payer and the recipient in the boxes on the form. If you have made payments to more than one individual, show on the first line **ONLY** the name of the recipient whose number is on the statement. Show the names of the rest on the second line. If the recipient is **NOT** an individual and the name runs over the first line, you may continue on the second and following lines.

F. Statements to Income Recipients.—You may give statements to income recipients on government-printed official forms or on privately printed substitute forms.

A Revenue Procedure titled "Specifications for Private Printing of Forms W-2, W-2P, and W-3" explains the format that must be used on all substitute paper forms. You can get a copy from any Internal Revenue Service Center or district office.

(1) Form W-2 Recipients.—Generally, give statements to employees by January 31, 1986. If employment ends before December 31, 1985, you may give copies any time after employment ends. If the employee asks for Form W-2, give him or her the completed copies within 30 days of the request or the final wage payment, whichever is later.

(2) Form W-2P Recipients.—Generally, you should give statements to income recipients by January 31, 1986.

G. Corrections.—Use **Form W-2c,** Statement of Corrected Income and Tax Amounts, to correct errors in previously filed Forms W-2 and W-2P. Use **Form W-3c,** Transmittal of Corrected Income and Tax Statements, to transmit the W-2c forms to the Social Security Administration (SSA). Instructions are on the forms. If an employee (or recipient) loses a statement, write "REISSUED STATEMENT" on the new copy, **but do not send Copy A of the reissued statement to SSA.**

H. Sick Pay.—If you had employees who received sick pay in 1985 from an insurance company or other third-party payer, you must report the following on the employees' W-2:

(a) in box 9, the amount (if any) of income tax withheld from the sick pay by the third-party payer;

(b) in box 10, the amount the employee must include in income;

(c) in box 11, the employee social security tax withheld by the third-party payer;

(d) in box 13, the amount of sick pay that is subject to employer social security tax; and

(e) in box 16, the amount (if any) not includible in income because the employee contributed to the sick pay plan.

You can include these amounts in the Form W-2 you issue the employees showing wages, or you can give the employees a separate W-2 and state that the amounts are for third-party sick pay. In either case, you must show in box 21 of Form W-3 the total amount of income tax withheld by third-party payers, even though the amounts are includible in box 9.

How to Complete Form W-2

Copy A of Forms W-2 and W-2P is printed with three forms to an unperforated page. Send the whole page even if one or two of the forms are blank or void. To permit checking the transmittal totals, please show subtotals on every 42nd form for the preceding 41 forms. Since this form is processed by optical scanning machines, please type or print the entries, if possible, using black ink. Please do not make any erasures, whiteouts, or strikeovers on Copy A. Make all dollar entries without the dollar sign but with the decimal point (000.00).

The instructions below are for boxes on Form W-2. If an entry does not apply, leave it blank.

Box 1—Control number.—You may use this to identify individual Forms W-2. *You do not have to use this box.*

Box 2.—Show the employer's name, address, and ZIP code. State and local government employers must show the State SSA number (a nine-digit number starting with 69) below the employer's address on forms for those employees covered under section 218 of the Social Security Act.

Box 3—Employer's identification number.—Show the number assigned to you by IRS (00-0000000). Do not use a prior owner's number.

Box 4—Employer's State number.—You do not have to complete this box, but you may want to if you use copies of this form for your State return. The number is assigned by the individual States.

Box 5.—Check the boxes that apply.

Statutory employee.—Check this box for all statutory employees whose earnings are subject to social security tax but **NOT** subject to Federal income tax withholding. (See Circular E for more information on statutory employees.)

Deceased.—Check this box if the employee is now deceased.

Legal representative.—Check this box when the employee's name is the only name shown but is shown as a trust account (e.g., John Doe Trust), or another name is shown in addition to the employee's name and the other person or business is acting on behalf of the employee.

Representatives are identified by words such as "custodian," "parent," or "attorney"; sometimes the employee is identified as a minor, child, etc. Do **NOT** check this box if the address is simply in care of someone other than the employee (John Doe, c/o Jane Smith).

942 employee.—For household employers only. See Form 942 instructions for information on when to check this box.

Subtotal.—If you are submitting 42 or more Forms W-2 or W-2P, please give subtotal figures for every 41 individual forms. Check the "Subtotal" box on the form that shows the subtotal dollar amounts for the preceding 41 forms. Void statements are counted in order with good statements (*but do not include the money amounts from the void statements in the subtotal figures*). Subtotal statements should always be the last completed form on a page. The subtotal amounts to be shown are:

Form W-2—Boxes 6, 7, 9, 10, 11, 13, and 14
Form W-2P—Boxes 9, 10, and 11

Example: *An employer with Forms W-2 for 86 employees should show a subtotal on the 42nd statement, the 84th statement (showing the subtotal for statements 43 through 83), and the 89th statement (showing the subtotal for statements 85 through 88).*

Void.—Put an X in this square when an error has been made. **(Be sure the amounts shown on void forms are NOT included in your subtotals.)**

Box 6—Allocated tips.—If you are a large food or beverage establishment, show the amount of tips allocated to the employee. (See the instructions for **Form 8027,** Employer's Annual Information Return of Tip Income and Allocated Tips.) This is an information item only, so do **NOT** include this amount in box 10 (Wages, tips, other compensation) or box 14 (Social security tips).

Box 7—Advance EIC payment.—Show the total amount paid to the employee as advance earned income credit payments.

Box 8—Employee's social security number.—Give the number shown on the employee's social security card. If the employee does not have a number, he or she should apply for one at any SSA office.

Box 9.—Federal income tax withheld.

Box 10—Wages, tips, other compensation.—Show, before any payroll deductions, the total of:

(1) wages paid,

(2) noncash payments (including benefits),

(3) tips reported, and

(4) all other compensation (including payments for moving expenses and amounts contributed to a simplified employee pension (SEP) plan). Other compensation is what you pay the employee but do not withhold Federal income tax on. If you prefer not to include it in the total, you may show it on a separate Form W-2.

Note: *Payments to statutory employees, that are subject to social security tax but not subject to Federal income tax withholding, must be shown in box 10 as other compensation. (See Circular E for definition of a statutory employee.)*

Box 11—Employee social security tax withheld.—Show the total employee social security tax (not your share) deducted and withheld or paid by you for the employee. (But if there was an adjustment in 1985 to correct the tax for a prior year, enter the amount withheld in 1985 increased by the adjustment for an overcollection or decreased by the adjustment for an undercollection.)

Example: *Employee A earned $26,000 in 1984. You withheld $1,642 in employee social security taxes. You should have withheld $1,742 ($26,000 x 6.70%). To correct this, you withheld extra tax in 1985 until you made up the $100. At the end of 1985 your books show $1,933 withheld ($1,833 ($26,000 x 7.05%) plus $100 to make up the 1984 error). To show the correct tax withheld for 1985, subtract the $100 from $1,933 and show $1,833 in box 11 of Form W-2. Please note: You must file* ***Form 941c****, Statement to Correct Information Previously Reported on the Employer's Federal Tax Return, with your* ***Form 941****, Employer's Quarterly Federal Tax Return, in the quarter you find the error and issue the employee a Form W-2c for 1984.*

Box 12—Employee's name.—Please show the first name, middle initial or name, and then the last name as shown on the employee's social security card. If the name has changed, have the employee get a corrected card from any SSA office. Use the name on the original card until you see the corrected one.

Box 13—Total social security wages.—Show the total wages paid (before payroll deductions) subject to employer social security tax, (but **NOT** including tips deemed to be wages, social security tips, or allocated tips). Generally, noncash payments are considered wages. (See Circular E for more information.) Include any employee social security tax and employee State unemployment compensation tax you paid for your employee rather than deducting it from wages (see Revenue Procedure 81-48 for details). Do not enter more than $39,600 (the maximum social security wage base for 1985) in box 13.

Box 14—Social security tips.—Show the amount the employee reported even if you did not have enough employee funds to collect the social security tax for the tips. When tips and wages subject to employee social security taxes amount to $39,600, do **NOT** show any additional tips in this box. But show all tips reported in box 10 along with wages and other compensation.

Box 15—Employee's address and ZIP code.—This box has been combined with box 12 (employee's name) on all copies except Copy A to allow employees' copies to be mailed in a window envelope or as a self-mailer.

Box 16—Employer's use.—Complete and label this box if (a), (b), (c), (d), (e), or (f) apply.

(a) You did **not** collect employee social security tax on all of the employee's tips. Show the amount of tax that you could not collect because the employee did not have enough funds to deduct it from. Do not include this amount in box 11.

(b) You provided your employee more than $50,000 of group-term life insurance. Show the cost of coverage over $50,000. This is "other compensation," so include it in the box 10 total.

(c) You are reporting sick pay. Show the amount of any sick pay **NOT** includible in income because the employee contributed to the sick pay plan. Label it as nontaxable. If you issue a separate W-2 for sick pay, use box 16 to label the W-2 as "Sick pay."

(d) You made contributions to the SEP-IRA of an employee. Enter the amount contributed.

(e) You are a Federal agency with employees paying the 1.35% medicare portion of the social security tax. For these employees, write "Medicare qualified Federal employment" in box 16, and show the social security wages and 1.35% tax withheld in boxes 13 and 11, respectively.

(f) You made excess "Golden" parachute payments to certain key corporate employees. If the excess payments are considered wages, the 20% excise tax is treated as income tax withholding. Include this tax in box 9 and identify the amount as "EPP" in box 16.

If none of the above apply, then you may use box 16 for any information that you want to give the employee. Examples are union dues or health insurance premiums deducted, moving expenses paid, etc.

Boxes 17 through 22—State or local income tax information.—You may use these to report State or local income tax information. You do not have to use them. But you may want to show the amounts on Copy A if you use copies of this form for your State or local tax returns or as recipients' statements.

How to Complete Form W-2P

The instructions below are for Form W-2P. If an entry does not apply, leave it blank. Use this form to report retirement payments other than total distributions that close an account. Examples are pensions, retired or retainer pay, annuities under commercial, individually purchased contracts, payments from individual retirement accounts or individual retirement annuities, and loans treated as distributions under section 72(p).

Use Form W-2 to report payments from which you withheld social security tax.

Do **NOT** file Form W-2P for the following cases: (a) You paid retirement benefits that are exempt from tax such as Veterans Administration payments. (b) You made payments as a fiduciary, filed Form 1041, and gave each beneficiary a Schedule K-1 (Form 1041). (c) You made total distributions reported on Form 1099-R.

Box 1—Control number.—You may use this to identify individual Forms W-2P. *You do not have to use this box.*

Box 3—Payer's Federal identification number.— Show the number assigned to you by the IRS (00-0000000).

Box 4—Payer's State number.—You do not have to complete this box, but you may want to if you use copies of this form for your State return. The number is assigned by the individual States.

Boxes 5 and 6—State income tax withheld and name of State.—You may use these to report State and local tax information if you use copies of this form for your State returns or as recipients' statements.

Box 7.—Check the boxes that apply.

Taxable amount (Tax amt) ***NOT*** *determined.*—Check this box if you are not able to figure the taxable amount of the annuity, pension, retirement pay, or IRA payment to report in box 10.

Deceased.—Check this box if the recipient is now deceased.

Legal representative.—Check this box when the recipient's name is the only name shown but it is shown as a trust account (e.g., John Doe Trust), or when another name is shown as well as the recipient's name and the other person or business is acting on behalf of the recipient.

Representatives are identified by words such as custodian, parent, or attorney; sometimes the recipient is identified as a minor, child, etc. Do **NOT** check this box if the address is simply in care of someone other than the recipient (such as John Doe c/o Jane Smith).

Subtotal.—If you are submitting 42 or more Forms W-2P, please give subtotal figures for every 41 individual forms. See the W-2 instructions for box 5 for details.

Void.—Put an X in this square when an error has been made. Forms W-2P should have no erasures, whiteouts, or strikeovers on Copy A. **(Be sure the amounts shown on void forms are NOT included in your subtotals.)**

Box 8—Recipient's social security number.—Give the number shown on the recipient's social security card. If the person does not have a number, he or she should apply for one at any SSA office.

Box 9—Gross annuity, pension, retired pay, or IRA payment.—Show total amount paid before income tax or other deductions were withheld. Include current insurance premiums paid by the trustee or custodian, and loans treated as distributions under section 72(p).

Box 10—Taxable amount.—Show the amount the recipient should include in income. This often is the same as in box 9. Also, the amount in box 9 may include taxable earnings on an excess contribution while the excess contribution may be nontaxable. There may be some years, such as when the 3-year or other cost recovery rule for annuities applies, in which none of the payments are taxable. You should make a reasonable effort to obtain the information necessary to compute the taxable amount. If you do not have the facts you need to figure the taxable amount, you may leave this box blank and check "Tax amt not determined" in box 7.

Box 11.—Federal income tax withheld.

Box 12—Recipient's name.—Please show the first name, middle initial or name, and then the last name as they are shown on the recipient's social security card. If the name has changed, have the person get a corrected card from any SSA office. Use the name shown on the original card until you see the corrected one.

Box 13.—You may use box 13 and the space below boxes 13 and 14 for any other information that you want to give the recipient.

Box 14—Distribution code.—This box is used to identify distributions that may have special tax consequences. In the past, it was used to identify only distributions from an IRA. It should now be used to identify any distributions from an IRA, SEP, or DEC, and any distributions from other plans that are not normal retirement distributions. The code is a four-digit number starting with 555. The fourth digit identifies the type of distribution: 1 for a premature distribution (other than for rollover, disability, or death); 2 for a rollover; 3 for disability; 4 for death; 6 for other; 7 for a normal IRA, SEP, or DEC distribution; 8 for excess contributions plus earnings on such excess contributions. (For example, 5553 for disability.)

Box 15.—See box 15, Form W-2 instructions.

Please do not staple

1 Year being corrected
19___

2 Employer's use

For Official Use Only ▶

3 Form: ☐ W-2 ☐ W-2AS ☐ W-2P ☐ W-2GU ☐ W-2VI

4 Statutory employee ☐ Deceased ☐ 942 employee ☐ Legal Rep. ☐ Medicare Fed. emp. ☐

OMB No. 1545-0008
Expires 6-30-88

5 Employee's correct SSN

6 Employer's SSA number
69-

7 Employer's Federal EIN

8 Employer's state I.D. number

9 Employee's name, address, and ZIP code

10 Employer's name, address, and ZIP code

Complete 11 and/or 12 **only** if **incorrect** on the last form you filed. Show **incorrect** item here ▶

11 Employee's **incorrect** SSN

12 Employee's name (as **incorrectly** shown on previous form)

CHANGES

Item	**(a) As Previously Reported**	**(b) Correct Information**	**(c) Increase (decrease)–(b) less (a)**
13 Social security wages			
14 Social security tips			
15 Social security tax withheld			
16 Wages, tips, other comp.			
17 Federal income tax withheld			
18 Allocated tips			
19 *			
20 Gross annuity, etc. (W-2P)			
21 Taxable amount (W-2P)			
22 State wages			
23 State tax withheld			
24 Local wages			
25 Local tax withheld			

*See instructions. **For Paperwork Reduction Act Notice, see back of Copy D.**

Copy A for Social Security Administration

Form **W-2c** (Rev. 10-85) **Statement of Corrected Income and Tax Amounts**

Department of the Treasury
Internal Revenue Service

Notice to Employee:

This is a corrected version of the W-2 form checked in item 3. If you have already filed a tax return for the year shown in item 1, you may have to file an amended return if any of the corrections change your tax liability for that year. Contact the Internal Revenue Service (or other taxing authority in the case of Form W-2AS, W-2GU, or W-2VI) for further information.

When you file your return, *attach this corrected statement with the original W-2.* If you have already filed a return, attach this W-2c to your amended return.

Instructions for Preparing Form W-2c

Purpose of Form.—Form W-2c is used by an employer (or other payer, in the case of Form W-2P) to correct errors in previously filed Forms W-2, W-2P, W-2AS, W-2GU, or W-2VI. Use a separate **Form W-3c**, Transmittal of Corrected Income and Tax Statements, to transmit each type of form shown in item 3. Section 218 filers (certain state and local governmental employers) must use Form SSA-3964, State's Report of Adjustments, for years before 1982.

Where to File.—Copy A of Form W-2c should be filed with the Social Security Administration. Correct addresses are on the back of Form W-3c. File the remaining copies of W-2c as noted on the bottom of each form.

How to Complete Form W-2c.—For descriptions of individual items, see the instructions for Forms W-2 and W-2P. Complete items 1–10 as applicable. For items 11–25 (Changes) complete only those items that are being corrected. Otherwise leave blank.

Always use a Form W-3c to send more than one Form W-2c. A single Form W-2c may be submitted without a Form W-3c. (**Note:** Section 218 filers must always submit a Form W-3c.)

On any line that shows a dollar change, and one of the amounts is zero, enter "zero" or "0"—do not leave blank.

Negative amounts in column (c) (decreases) must be bracketed.

Specific Instructions

Item 2—Employer's use.—This is an optional item which employers may use to identify individual forms.

Item 6—Employer's SSA number.—This is a number beginning with "69–" that is assigned to certain state or local governmental employers. Also add the L indicator, coverage group and/or PRU number, if these have been assigned to you by SSA.

Item 8—Employer's state I.D. number.—You are not required to complete this item. This number is assigned by the individual states. You may want to complete this item if you use copies of this form for your state returns.

Items 11 and 12.—Complete items 11 and/or 12 only if you wish to correct an employee's SSN or name. If the previously reported money amounts were correct, you do not need to enter them on Form W-2c.

Item 19 .—Use this line to correct the amount of taxable fringe benefits shown in Box 16 of Form W-2, the advance earned income credit payment shown in Box 7 of Form W-2, or the IRA code shown in Box 14 of Form W-2P. Be sure to label the item as "Fringe benefits," "Advance EIC payment," or "IRA code."

Items 22 through 25—State or local data.—If your ONLY changes to the original W-2 are to state or local data, DO NOT send the W-2c to SSA or your State Social Security Administrator.

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue and Social Security laws of the United States. We need it to ensure that taxpayers are complying with these laws and so that we can figure and collect the right amount of tax. You are required to give us this information.

1 Control number		OMB No. 1545-0008
Kind of Payer and Tax Statements Transmitted ▶	2 941/941E ☐ Military ☐ 943 ☐ CT-1 ☐ 942 ☐ Medicare Fed. emp. ☐	3 W-2 ☐ W-2P ☐ | 4 | 5 Number of statements attached
6 Allocated tips	7 Advance EIC payments	
9 Federal income tax withheld	10 Wages, tips, and other compensation	11 Social security tax withheld
12 Employer's State number	13 Social security wages	14 Social security tips
15 Employer's identification number ——		16 Establishment number
17 Employer's name		18 Gross annuity, pension, etc. (Form W-2P)
19 Employer's address and ZIP code		20 Taxable amount (Form W-2P) 21 Income tax withheld by third-party payer

OCR Form
Do NOT Photocopy
YOUR COPY

Form **W-3** Transmittal of Income and Tax Statements 1985

Department of the Treasury
Internal Revenue Service

Instructions

If you issue multiple Forms W-2 to show State or local tax data, do NOT report the same Federal tax data to SSA on more than one Copy A.

Payers filing privately printed Forms W-2 or W-2P must file Forms W-3 that are the same width as the Forms W-2 or W-2P.

Sick Pay.—Sick pay paid to an employee by a third party such as an insurance company or trust requires special treatment at year-end because IRS reconciles an entity's Forms 941 with the Forms W-2 and W-3 filed at the end of the year. See **Circular E,** Employer's Tax Guide, for information on who should prepare Forms W-2 and W-3. If the third-party payer notifies the employer about the sick-pay payments, then the following instructions apply:

A. Third-party payers.—Because you withheld social security tax (and perhaps Federal income tax) from persons for whom you do not file Forms W-2, you must file a separate Form W-3 with a single "dummy" W-2 that shows the following information:

(a) in box 9, the total income tax withheld by you (if any) from the sick pay;

(b) in box 10, the total sick pay paid by you during 1985;

(c) in box 11, the total employee social security tax withheld and paid to the IRS on your Form 941;

(d) in box 12, the words "Third-party sick pay" in place of the employee's name; and

(e) in box 13, the total of all sick pay subject to employee social security tax.

On the separate Form W-3, complete only boxes 2, 3, 9, 10, 11, 13, 15, 17, and 19. Do **not** make an entry in box 21 of this Form W-3.

B. Employers.—If you had employees who received sick pay in 1985 from an insurance company or other third-party payer, you must report the following on the employees' W-2s:

(a) in box 9, any income tax withheld from the sick pay by the third-party payer;

(b) in box 10, the amount of sick pay the employee must include in income;

(c) in box 11, the employee social security tax withheld by the third-party payer;

(d) in box 13, the amount of sick pay that is subject to employer social security tax; and

(e) in box 16, the amount of any sick pay not includible in income because the employee contributed to the sick pay plan.

You can include these amounts in the Form W-2 you issue the employee showing wages, or you can give the employee a separate W-2 and state that the amounts are for third-party sick pay. In either case, you must show in box 21 of Form W-3 the total amount of income tax withheld by third-party payers, even though the amounts are included in box 9.

Forms W-2 and W-2P That You Cannot Deliver.—You will need to keep for 4 years any employee (recipient) copies of Forms W-2 and W-2P that you tried to deliver but could not.

Reporting on Magnetic Media

We encourage employers and other payers with computer capabilities to use magnetic media for filing the information on Forms W-2 and W-2P. You can get filing specifications at most IRS or SSA offices. You may also get this information by writing to the Magnetic Media Coordinator at the IRS Center for your locality or to the Social Security Administration, P.O. Box 2317, Baltimore, MD 21203, Attn: Magnetic Media Coordinator.

A. Who Must File.—Employers and other payers must file Form W-3, Transmittal of Income and Tax Statements, to send Copy A of Forms W-2 and W-2P.

The transmitter or sender (including a service bureau, paying agent, or disbursing agent) may sign Form W-3 for the employer or payer only if the sender:

(a) Is authorized to sign by an agency agreement (either oral, written, or implied) that is valid under State law; and

(b) Is authorized by the payer (by either oral, written, or implied agreement) to ask for the taxpayer identification numbers of payees who are reported on the forms; and

(c) Writes "For (name of payer)" next to the signature.

If an authorized sender signs for the payer, the payer is still responsible for filing, when due, a correct and complete Form W-3 and attachments, and is subject to any penalties that result from not complying with these requirements.

Be sure the payer's name and employer's identification number on Forms W-2, W-2P, and W-3 are the same as those used on the Form 941, 942, or 943 filed by or for the payer.

If you buy or sell a business during the year, see Rev. Proc. 84-77, 1984-48 IRB 30, for details on who should file the employment tax returns.

B. When to File.—File Form W-3, with attached Copy A of Forms W-2 or W-2P, by February 28, 1986.

C. Where to File.—

If your legal residence, principal place of business, office or agency is located in ▼	Use this address ▼
Alaska, Arizona, California, Colorado, Hawaii, Idaho, Iowa, Minnesota, Missouri, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wisconsin, Wyoming	Social Security Administration Salinas Data Operations Center Salinas, CA 93911
Alabama, Arkansas, Florida, Georgia, Illinois, Kansas, Louisiana, Mississippi, New Mexico, Oklahoma, South Carolina, Tennessee, Texas	Social Security Administration Albuquerque Data Operations Center Albuquerque, NM 87180
Connecticut, Delaware, District of Columbia, Indiana, Kentucky, Maine, Maryland, Massachusetts, Michigan, New Hampshire, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, Vermont, Virginia, West Virginia	Social Security Administration Wilkes-Barre Data Operations Center Wilkes-Barre, PA 18769
If you have no legal residence or principal place of business in any State	Social Security Administration Wilkes-Barre Data Operations Center Wilkes-Barre, PA 18769

D. Shipping and Mailing.—If you send more than one kind of form, please group forms of the same kind and send them in separate groups. For example, if you pay both wages and annuities, file Forms W-2 with one Form W-3 and Forms W-2P with a second Form W-3.

Please do not staple Form W-3 to the related Forms W-2 or W-2P. These forms are machine read, and staple holes or tears cause the machine to jam.

If you have a large number of forms, you may send them in separate packages. Show your name and employer identification number on each package. Number them in order (1 of 4, 2 of 4, etc.), and place Form W-3 in package one. Show the number of packages at the bottom of Form W-3 below the title. If you mail them, you must send them first class.

E. How to Complete Form W-3.—Since the form will be read by optical scanning machines, please type entries if possible. Send the whole first page with Copy A of Forms W-2 or W-2P. Make all dollar entries without the dollar sign but with the decimal point (000.00).

The instructions below are for boxes on the form. If any entry does not apply to you, leave it blank. (Household employers, see the instructions on Form 942.)

Box 1—Control number.—This is an optional box which you may use for numbering the whole transmittal.

Boxes 2 and 3—Kind of Payer and Tax Statements Transmitted.—Put an X in the check boxes that apply to you. **Check only one box in each grouping.** If you have more than one type in each grouping, send each with a separate W-3.

Box 2—Kind of payer.

941/941E.—Check this box if you file Form 941 or 941E and none of the other five categories apply.

Military.—Check this box if you are a military employer sending Forms W-2 for members of the uniformed services.

943.—Check this box if you file Form 943 and are sending forms for agricultural employees. If you also have employees who are not agricultural employees, send the non-agricultural employees' Forms W-2 with a Form W-3 that generally has a checkmark in the 941/941E box.

CT-1.—Check this box if you are a railroad employer sending Forms W-2 for employees covered under the Railroad Retirement Tax Act (RRTA). Do NOT show employee RRTA tax in boxes 11, 13, and 14. These boxes are ONLY for social security information. If you also have employees who are subject to social security taxes, send each group's Forms W-2 with a separate W-3. Send the social security tax employees' Forms W-2 with a separate W-3 that has a checkmark in the 941/941E box.

942.—Check this box if you are a household employer sending Forms W-2 for household employees. If you also have employees who are not household employees, send each group's Forms W-2 with a separate Form W-3.

Medicare Federal employee.—Check this box if you are a U.S. agency with employees subject only to the 1.35% hospital insurance benefits (medicare) tax.

Box 3—Form W-2 or W-2P.—Check the box showing the kind of forms you are sending.

Box 5—Number of statements attached.—Show the number of completed individual Forms W-2 or W-2P attached to this Form W-3. Do not count voided W-2s. Each page of Forms W-2 or W-2P has three statements.

Box 6—Allocated tips.—Enter the total amount of allocated tips shown on the attached Forms W-2.

Box 7—Advance EIC payments.—Enter the total amount of payments shown on the attached Forms W-2.

Box 9—Federal income tax withheld.—Show the total withheld Federal income tax reported on the attached Forms W-2 or W-2P.

Box 10—Wages, tips, and other compensation.—Show the total wages, tips, and other compensation reported on the attached Forms W-2.

Box 11—Social security tax withheld.—Show the total withheld social security tax reported on the attached Forms W-2.

Box 12—Employer's State number.—You are not required to use this box. This number is assigned by individual States where your business is located. You may want to complete this box if you use copies of this form for your State returns.

Box 13—Social security wages.—Show the total social security wages reported on the attached Forms W-2.

Box 14—Social security tips.—Show the total social security tips reported on the attached Forms W-2.

Box 15—Employer's identification number.—Show the number assigned to you by IRS. This should be shown as 00-0000000 and should be the same as shown on your Form 941, 942, or 943. Do not use an earlier owner's number. If available, use the label sent to you with **Publication 393** or **51** that shows your name, address, and employer identification number. Use of the label speeds processing of the form. Make any necessary corrections on the label.

Box 16—Establishment number.—This is for Establishment Reporting Plans. Please show the number you and SSA agreed to. You may file a separate Form W-3, with Forms W-2, for each establishment even if they all have the same employer identification number. Or you may use the optional method using a single Form W-3. For more information about using the Establishment Reporting Plan, contact your SSA office.

Box 17—Employer's name.—This entry should be the same as that shown on your Form 941, 942, or 943. If available, use the label sent to you with **Publication 393** or **51**.

Box 18—Gross annuity, pension, retired pay, or IRA payment.—Show the total gross annuity, pension, retired pay, or IRA payments shown on the attached Forms W-2P.

Box 19—Employer's address and ZIP code.—If available, use the label sent to you with **Publication 393** or **51**. Make any necessary corrections on the label. Use of the label speeds processing.

Box 20—Taxable amount.—Show the taxable amount of annuities, pensions, retired pay, or IRA payments reported on the attached Forms W-2P.

Box 21—Income tax withheld by third-party payers.—Complete this box if you have employees who had income tax withheld on third-party payments of sick pay. Show the total income tax withheld by third-party payers on pay ments to all of your employees. Although this tax is included in the box 9 total, it must be separately shown here.

8888 ☐ CORRECTED For Official Use Only ☐

Form **W-3G**
Department of the Treasury
Internal Revenue Service

Transmittal of Certain Information Returns

OMB No. 1545-0238
1985
(Rev. 7-85)*

OCR Form
Do NOT Photocopy

Type or machine print PAYER'S name	1 PAYER'S identifying number	2 Enter the number of Forms W-2G transmitted	**Copy for Internal Revenue Service Center**
Street address	3 Enter the number of Forms 1099-R transmitted	4 Total Federal income tax withheld	
City, state and ZIP code	5 Enter number without taxpayer identifying number		

Under penalties of perjury, I declare that I have examined this return and accompanying documents and, to the best of my knowledge and belief, they are true, correct, and complete.

Signature ▶ .... Title ▶ .... Date ▶ ....

Please return this entire page to the Internal Revenue Service Center address for your state as listed below.

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Instructions for Form W-3G

(Section references are to the Internal Revenue Code, unless otherwise noted.)

Who Must File.—Payers of gambling winnings for which a **Form W-2G,** Statement for Recipients of Certain Gambling Winnings, is required and payers of certain death benefits or total distributions (those that close the account) from a pension plan, annuity, or individual retirement arrangement for which a **Form 1099-R,** Statement for Recipients of Total Distributions from Profit-Sharing, Retirement Plans, Individual Retirement Arrangements, Etc., is required, must file Form W-3G, Transmittal of Certain Information Returns, with Forms W-2G or Forms 1099-R.

When to File.—File Forms W-3G with Forms W-2G and 1099-R by February 28 of the calendar year following the calendar year in which payment is made.

Where to File.—(Do not file with the Social Security Administration.)

If your principal business, office or agency, or legal residence in the case of an individual, is located in ▼	Use the following Internal Revenue Service Center address ▼
Alabama, Florida, Georgia, Mississippi, South Carolina	Atlanta, GA 31101
New Jersey, New York City and counties of Nassau, Rockland, Suffolk, and Westchester	Holtsville, NY 00501
Connecticut, Maine, Massachusetts, Minnesota, New Hampshire, New York (all other counties), Rhode Island, Vermont	Andover, MA 05501
Illinois, Iowa, Missouri, Wisconsin	Kansas City, MO 64999
Delaware, District of Columbia, Maryland, Pennsylvania	Philadelphia, PA 19255
Kentucky, Michigan, Ohio, West Virginia	Cincinnati, OH 45999
Kansas, Louisiana, New Mexico, Oklahoma, Texas	Austin, TX 73301
Alaska, Arizona, California (counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo, and Yuba), Colorado, Idaho, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	Ogden, UT 84201
California (all other counties), Hawaii	Fresno, CA 93888
Arkansas, Indiana, North Carolina, Tennessee, Virginia	Memphis, TN 37501

If you have no legal residence, principal place of business, or principal office or agency in any Internal Revenue district, file your return with the Internal Revenue Service Center, Philadelphia, PA 19255.

Magnetic Media Reporting .—IRS encourages filing information returns on magnetic tape, diskette, magnetic disk, or cassette or mini-disk. Revenue Procedures for magnetic media reporting are available at Internal Revenue service centers and district offices. Information reported on Forms W-2G and 1099-R may be reported on the same tape or disk submission.

Undeliverable Forms.—Any copies of Form W-2G or Form 1099-R that, after a reasonable effort, cannot be delivered to a winner or recipient should be kept as a part of your records for 4 years.

Payer's Identifying Number.—Your payer's identifying number is your Employer Identification Number.

Shipping and Mailing.—Payers should group returns of the same type and forward them in separate groups.

Completing the Form.—Enter the number of forms being transmitted in the appropriate box (Box 2 for W-2G, Box 3 for 1099-R). Enter in Box 4 the total Federal income tax withheld on the forms covered by this transmittal.

If you are sending many forms, you may send them in conveniently-sized packages. On each package write your name and identifying number. Number the packages consecutively and place Form W-3G in package number one. At the top of Form W-3G show the number of packages. Postal regulations require forms and packages to be sent by first class mail.

Do not mark in the box to the right of "For Official Use Only" at the top of Form W-3G. This box is for use by IRS only.

Corrected Returns.—Use a separate Form W-3G for corrected returns and mark over the "X" in the "CORRECTED" box at the top of the form. On corrected Forms 1099-R mark over the "X" in the checkbox to the left of the word "CORRECTED." On corrected Forms W-2G center the words "CORRECTED RETURN" in the space at the top of the return above "For Official Use Only" and mark an "X" in the box next to the number in the left corner of the form. For paper forms correcting data previously submitted on magnetic media, print "CORRECTED RETURN— MAGNETIC MEDIA" on the bottom of the transmittal Form W-3G and mark the checkbox on the Form W-3G and on each Form W-2G or 1099-R. Complete all required data boxes on a corrected return, since it supersedes the information previously reported. Also, statements issued to recipients or winners should be identified as "CORRECTED." If a Form 1099-R is prepared incorrectly, do not cut and separate the forms on the page. Simply mark over the "X" in the checkbox to the left of the word "VOID" appearing at the top of the form and prepare a new form for those voided.

General Instructions for Payers of Gambling Winnings

Instructions for Form W-2G

Who Must File.—The requirements for filing Form W-2G depend on the type of gambling and are listed separately following these general instructions.

Withholding Requirements.—A payer of certain gambling winnings (other than winnings from keno, bingo, and slot machines) is required to withhold 20% from such winnings and report this amount on Form W-2G. This is referred to as regular gambling withholding. It applies to gambling winnings of more than (1) $1,000 from a wager placed in a sweepstakes, wagering pool, or non-state-conducted lottery, (2) $5,000 from a wager placed in a state-conducted lottery, and (3) $1,000 from other wagering transactions if the betting odds are 300 to 1 or higher. Regular gambling withholding applies to the amount of gross proceeds (the amount of winnings less the amount wagered) and not merely to the amounts in excess of $1,000 or $5,000. In addition, if a recipient fails to furnish a payer of reportable gambling winnings other than those listed in (1), (2),

(Continued on page 2)

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* (This 7-85 revision of the 1985 form only corrects the "Where to File" instructions.)

and (3) above with a correct taxpayer identification number (TIN), the payer is required to withhold 20% of the proceeds and report this amount on Form W-2G. This is referred to as backup withholding. See the instructions for each type of gambling for detailed rules for backup withholding. Backup withholding applies to the amount of gross proceeds (the amount of winnings less the amount wagered) and not merely to the amounts of such reportable payments in excess of $600, $1,200 or $1,500.

A recipient may use **Form W-9,** Payer's Request for Taxpayer Identification Number and Certification, to report his or her taxpayer identification number to the payer.

Payments of gambling winnings to a nonresident alien individual or a foreign corporation are not subject to reporting or withholding on Form W-2G or **Form 5754,** Statement by Person(s) Receiving Gambling Winnings, since such payments are subject to withholding under sections 1441(a) and 1442(a) and are reportable on Forms 1042 and 1042S.

Specific Instructions for Form 5754.—Form 5754 is to be used only when the person receiving the winnings is not the actual winner or is a member of a group of two or more winners on the same winning ticket.

The person receiving the winnings must furnish all the information required by Form 5754. However, a recipient of winnings from state-conducted lotteries need not provide identification other than his or her taxpayer identifying number. Part I lists the identification of the person to whom the winnings are paid, and Part II lists the actual winners, their respective shares of the winnings, and any additional winnings from identical wagers. If the person receiving the winnings is also one of the winners, the first name listed in Part II should be the same as the name in Part I. In this case, the "Amount won" box and (if applicable) the "Winnings from identical wagers" box must be filled in for that person, but the other boxes may be marked "Same as above."

In Part II, the person receiving the winnings must provide the name, address, identifying number, respective share of the winnings, and additional winnings from identical wagers for each of the winners. In addition, if Federal income tax is to be withheld, the form must be signed, under penalties of perjury, and dated by the person receiving the winnings. It is then returned to the payer for preparation of Form W-2G for each of the persons listed as winners. Forms W-2G may be issued immediately or by January 31 following the year of the payment. Do not file Form 5754 with IRS.

Instructions for Payers of Gambling Winnings from Horse Racing, Dog Racing, Jai Alai, and Other Wagering Transactions Not Discussed Later

Who Must File.—You must prepare Form W-2G for every person to whom you pay $600 or more in gambling winnings, if such winnings are at least 300 times the amount of the single wager. You must withhold federal income tax, at the rate of 20%, from any such gambling winnings if the total proceeds (the amount of winnings less the amount wagered) exceed $1,000. In addition, if the recipient of reportable gambling winnings does not provide a TIN, you must impose backup withholding at the rate of 20% on any such winnings that are not subject to regular gambling withholding under the preceding sentence (that is, the winnings are at least $600, but do not exceed $1,000). If more than one person shares in the winnings from a single wager, the aggregate amount of the winnings will determine the amount of the proceeds for purposes of reporting and backup withholding.

In the case of multiple wagers sold on one ticket, such as the $12 box bet on a Big Triple or Trifecta, the wager will be considered to be six $2 bets and not one $12 bet for purposes of computing the amount to be reported or withheld. Winnings on a $12 box bet must be reported if they are $600 or more and Federal income tax must be withheld if the proceeds amount to more than $1,000 or, in the event the proceeds do not exceed $1,000, if the recipient fails to provide a TIN.

Identical wagers (for example, two $2 bets on a particular horse to win the same race) are aggregated for purposes of the reporting and withholding requirements. Also, identical wagers that are not part of the payment for which the W-2G is being prepared are aggregated for purposes of withholding to determine if the total amount of proceeds from identical wagers is more than $1,000. If the person presenting the ticket for payment is the sole owner of the ticket, Form W-2G should be filled in showing the name, address, and identifying number of the winner. If Federal income tax is to be withheld, the winner then signs the W-2G, under penalties of perjury, stating that he or she is the sole owner and that the information listed on the form is correct. In this case, Form 5754 is not used.

Specific Instructions for Form W-2G.—
Report in:

Box 1.—Payments of $600 or more, if the payment is at least 300 times the amount wagered on a single wager.

Box 2.—The amount of Federal income tax withheld, whether regular withholding or backup withholding.

Box 3.—The type of wager if other than a regular race bet, for example, Daily Double, Big Triple, etc.

Box 4.—The date of the winning event. This is not the date the money was paid, if paid after the date of the race (or game).

Box 5.—(Not applicable).

Box 6.—The race (or game) applicable to the winning ticket.

Box 7.—The amount of additional winnings from identical wagers.

Box 8 or 10 .—The cashier and/or window number making the winning payment.

Boxes 11 and 12.—The identification numbers of the person receiving the winnings.

Instructions for Payers of Gambling Winnings from State-Conducted Lotteries

Who Must File.—Prepare Form W-2G for every person to whom you pay winnings of $600 or more from a state-conducted lottery. You must withhold Federal income tax, at the rate of 20% from such lottery winnings if the total proceeds (the amount of winnings less the price of the winning ticket) exceed $5,000. In addition, if the recipient of the reportable lottery winnings does not provide a TIN, you must impose backup withholding at the rate of 20% on any such winnings that are not subject to regular gambling withholding under the preceding sentence (that is, the amount of the lottery winnings are at least $600, but do not exceed $5,000).

Installment payments of $5,000 or less are subject to regular 20% gambling withholding if the aggregate proceeds from such wager will exceed $5,000.

Where payments are to be made for the life of a person (or for the lives of more than one person), if it is actuarially determined that the aggregate proceeds from such wager are expected to exceed $5,000, such payments are subject to regular 20% gambling withholding.

The price of the wager must be deducted from the total winnings to determine whether reporting or withholding is required. The deduction for the cost of the wager should be made at the time of the first payment.

(Continued on page 3)

☐ **CORRECTED**

Form **W-3G**
Department of the Treasury
Internal Revenue Service

Transmittal of Certain Information Returns

OMB No. 1545-0238
1985

PAYER'S name, address, and ZIP code	1 PAYER'S identification number	2 Enter the number of Forms W-2G transmitted
	3 Enter the number of Forms 1099-R transmitted	4 Total Federal income tax withheld
	5 Enter number without taxpayer identifying number	

YOUR COPY
OCR Form
Do NOT Photocopy

Noncash payments (such as an automobile) are to be taken into account at their fair market value for purposes of reporting and withholding. If the fair market value exceeds $5,000 (after deducting the price of the wager), it is subject to regular gambling withholding. In such a case, the tax that must be withheld is computed as follows: (1) if payment of the withholding tax is made by the winner to the payer of winnings, 20% of the noncash payment less the amount of the wager is subject to withholding; (2) if the payer of winnings also pays the withholding tax, 25% of the noncash payment (less the wager) is subject to withholding. The sum of the noncash payment and withholding tax is still entered in Box 1. See Regulations section 31.3402(q)-1 for more information.

A payment of winnings is considered made when it is paid, either actually or constructively, to the winner. Winnings are constructively paid when they are credited to, or set apart for, that person without any substantial limitation or restriction on the time, manner, or condition of payment.

When a person other than a state lottery employee or agent makes the payments (as in the case of an insurance company handling the winnings as an annuity), that other person must deduct and withhold as originally required of the state lottery payer.

Specific Instructions for Form W-2G.—Report in:

Box 1.—Payments of $600 or more.

Box 2.—The amount of Federal income tax withheld whether backup withholding or regular gambling withholding.

Box 3.—The name of the lottery (Instant, Big 50, Baker's Dozen, etc.) and the price of the ticket (50¢, $1, etc.).

Box 4.—The date of the drawing of the winning number. This may not be the date the winnings are paid.

Box 5.—The ticket number or other identifying number.

Boxes 6 through 8 and 10 through 12.—(Not applicable to lottery winnings.)

Instructions for Payers of Gambling Winnings from Keno, Bingo, and Slot Machines

Who Must File.—You must prepare Form W-2G for every person to whom you pay $1,200 or more in gambling winnings from bingo or slot machines, or $1,500 or more from keno, after the price of the wager is deducted. If the winnings are of a noncash nature, the fair market value of the item won is to be considered the amount of the winnings. Total all winnings from each bingo or keno game. Winnings and losses from other wagering transactions are not to be taken into account in arriving at the $1,200 or $1,500 figure. If the recipient of reportable gambling winnings from bingo, keno, or slot machines does not provide a TIN, you must impose backup withholding at the rate of 20% on any such winnings. Regular gambling withholding does not apply to winnings from bingo, keno, or slot machines.

Specific Instructions for Form W-2G.—Report in:

Box 1.—Payments of $1,200 or more from bingo or slot machines or payments of $1,500 or more from keno.

Box 2.—The amount of any backup withholding.

Box 3.—The type of wager, such as bingo, keno, and slot machines, and the amount of the wager.

Box 4.—The date of the winning transaction.

Box 5.—The ticket number, card number (and color, if applicable), machine serial number, or any other information that will help identify the winning transaction.

Boxes 6 and 7.—(Not applicable.)

Box 8.—The initials of the person paying the winnings.

Box 10.—The location of the person paying the winnings (if applicable).

Boxes 11 and 12.—The identification numbers of the person receiving the winnings.

Instructions for Sweepstakes, Wagering Pools, and Certain Lotteries

Who Must File.—Prepare Form W-2G for each person to whom you pay $600 or more in gambling winnings from any wager placed in a sweepstakes, wagering pool, or lottery (other than state-conducted lotteries). You must withhold Federal income tax, at the rate of 20%, from any such gambling winnings if the total proceeds (the amount of winnings less the amount wagered) exceed $1,000. If the recipient of such reportable gambling winnings does not provide a TIN, you must impose backup withholding at the rate of 20% on any such winnings that are not subject to regular gambling withholding under the preceding sentence (that is, the winnings are at least $600, but do not exceed $1,000). These requirements apply to church raffles, charity drawings, etc.

Specific Instructions for Form W-2G.—Report in:

Box 1.—All payments of $600 or more.

Box 2.—The amount of Federal income tax withheld whether regular gambling withholding or backup withholding.

Box 3.—The type of wager, such as raffle, 50-50 drawing, etc.

Box 4.—The date of the winning transaction.

Boxes 5 through 8 and 10.—(Not applicable.)

Boxes 11 and 12.—The identification numbers of the person receiving the winnings.

Instructions for Form 1099-R

File a Form 1099-R for each person to whom you have made any designated distribution (as defined in section 3405) that is a total distribution from profit-sharing or retirement plans, whether or not you withheld Federal income tax. This rule applies even if the designated distribution is less than $600. All total distributions from an individual retirement arrangement (IRA), simplified employee pension (SEP), or an employer plan that accepts qualified deductible voluntary employee contributions (DEC's) must be reported in Box 8 regardless of the amount. Give a copy or statement to the recipient.

Do not report direct transfers between trustees (or issuers) that involve no payment or distribution of funds to the participant, except exchanges of insurance contracts (including a tax-free exchange under section 1035) under which any designated distribution may be made.

A total distribution is one in which the entire balance of the account is distributed. Payments that are not total distributions should be reported on Form W-2P, Statement for Recipients of Annuities, Pensions, Retired Pay, or IRA Payments.

Report on Form 1099-R total payments of matured or redeemed annuity, endowment, and life insurance contracts. For loans treated as distributions, see section 72(p). Do not report payments subject to social security tax withholding on this form.

The plan administrator must, when making a qualified total distribution, provide a written explanation to the recipient of the rollover

(Continued on page 4)

provisions of the law, and, if applicable, of the capital gain and 10-year averaging provisions. See section 402(f).

For payments to beneficiaries, prepare Form 1099-R using the name and taxpayer identification number of the beneficiary, not those of the decedent.

Report in:

Box 1.—The amount includible as income. Enter the total of amounts in Boxes 2 and 3. But do not include excludable or tax-deferred amounts reportable in Boxes 5, 6, or 9. Also, include premiums paid by a trustee or custodian for current life or other insurance protection. See Regulations section 1.72-16(b), Revenue Rulings 55-747, 1955-2 C.B. 228, and 66-110, 1966-1 C.B. 12, for information on the cost of premiums paid by an employee's trust under a qualified plan for current life insurance protection taxable to plan participants or their beneficiaries.

Do not include IRA distributions in this box. Report them in Box 8.

Box 2.—Capital gain (for lump-sum distributions only). See example below.

Box 3.—Ordinary income. See the example below.

To compute the months of an employee's active participation before 1974, count as 12 months any part of a calendar year in which an employee actively participated under the plan; for active participation after 1973, count as one month any part of a month in which the employee actively participated under the plan.

Active participation begins with the first month in which an employee became a participant under the plan and ends with the earliest of:

(a) The month in which the employee received a lump-sum distribution under the plan;

(b) In the case of an employee, other than a self-employed person or owner-employee, the month in which the employee separates from service;

(c) The month in which the employee dies; or

(d) For a self-employed person or owner-employee, the first month in which the employee becomes disabled (within the meaning of section 72(m)(7)).

For survivor-beneficiaries of deceased employees, the entries in Boxes 2 and 3 should be without regard to the survivor's death benefit exclusion under section 101(b). However, check the box below Box 9 if the death benefit exclusion applies.

Box 4.—The amount of Federal income tax withheld. See **Publication 493,** Alternative Tax Withholding Methods and Tables, for the special tables for qualified total distributions. If a payee fails to furnish his or her correct taxpayer identification number (TIN) to you in the manner required, or if IRS notifies you before any distribution that the TIN furnished is incorrect, you must withhold at a rate of 10% for nonperiodic distributions that are not qualified total distributions. For qualified total distributions, see Publication 493. Backup withholding does not apply.

Box 5.—Employees' contributions to a profit-sharing or retirement plan. Enter the amount (a) actually contributed by the employee over the years under the retirement or profit-sharing plans, plus (b) any employer-contributed amounts considered to have been contributed by the employee under section 72(f), (c) the accumulated cost of premiums paid for life insurance protection, taxable to the employee in previous years and in the current year under Regulations section 1.72-16, and (d) premiums paid on commercial annuities. Do not include contributions to IRA's, SEP's, or DEC's in this box.

Box 6.—Net unrealized appreciation in employer's securities. See Regulations section 1.402(a)-1(b) for determination of the net unrealized appreciation. Use this box if a distribution includes securities of the employer corporation (or a subsidiary or parent corporation) and you can compute the net unrealized appreciation in the employer's securities.

Box 7.—The appropriate code number, from the list below, that shows the type of distribution being made. No code is needed for normal distributions you report in Box 1. Code 9, for transfers to an IRA for a spouse due to a divorce, has been deleted. If the transfer to the spouse is from trustee to trustee, do not report the transfer.

The codes are as follows:

1—Premature distribution (other than codes 2, 3, 4, or 5); 2—Rollovers; 3—Disability; 4—Death (includes payments to a beneficiary); 5—Prohibited transactions; 6—Other; 7—Normal IRA, SEP, or DEC distributions; 8—Excess contributions refunded plus earnings on such excess contributions.

Box 8.—The amount distributed from an IRA, SEP, or DEC. The amount shown in this box may be includible in the recipient's current income, depending on the type of distribution. In the case of a distribution by a trust representing CD's redeemed early, report the net amount distributed. Do not include any amounts paid for IRA insurance protection in the total for Box 8.

Box 9.—Other. This space is for payers whose distribution includes items not covered by the above and who want to provide that information to employees or beneficiaries (for example, the current actuarial value of an annuity contract that is a part of a lump-sum distribution or the value of U.S. retirement bonds that you may distribute to employees or beneficiaries). Be sure to identify any amounts shown in this box by including a code in Box 7.

To determine the value of an annuity contract (reportable in Box 9), show the value as an amount equal to the current actuarial value of the annuity contract, reduced by an amount equal to the excess of the employee's contributions over the cash and other property (not including the annuity contract) distributed.

If an annuity contract is part of a multiple recipient lump-sum distribution, enter in Box 9, along with the current actuarial value, the percentage of the total annuity contract each Form 1099-R represents.

For a section 1035 exchange, show the total value of the contract, including premiums paid, in Box 9; show the total premiums paid in Box 5; and enter code 2 in Box 7.

Report here any death benefit payments not made as part of a pension, profit-sharing, or retirement plan. Do not show amounts reportable in Box 1. Enter code 4 in Box 7.

Nontaxable Distributions.—Report nontaxable distributions in Box 9 and show a code in Box 7 to identify them.

Box 10.—You may use this box to report any state income tax withheld. The use of this box is optional. You may want to use this box if you use Form 1099-R as the recipient's statement.

Example

Step I: Total Taxable Amounts

Total Distribution		XXXXX
Less: 1. Current actuarial value of any annuity	XXXXX	
2. Employee contributions (minus any amounts previously distributed that were not includable in the employee's gross income)	XXXXX	
3. Net unrealized appreciation in the value of any employer securities that were a part of the lump-sum distribution	XXXXX	XXXXX
Total Taxable Amount		XXXXX

Step II: Capital Gain

$$\text{Total Taxable Amount (from Step I)} \times \frac{\text{Months of Active Participation Before 1974}}{\text{Total Months of Active Participation}} = \text{Capital Gain}$$

Step III: Ordinary Income

$$\text{Total Taxable Amount (from Step I)} \times \frac{\text{Months of Active Participation After 1973}}{\text{Total Months of Active Participation}} = \text{Ordinary Income}$$

Form **W-9**
(Rev. July 1984)
Department of the Treasury
Internal Revenue Service

Payer's Request for Taxpayer Identification Number and Certification

Give This Form to the Payer, Middleman, Broker, or Barter Exchange

Please print or type

Name as shown on account (If joint account, list first and circle the name of the person or entity whose number you enter in Part I below.)

Address

City, State, and ZIP code

List account number(s) here ▶

Part I **Taxpayer Identification Number—For All Accounts**

Enter your taxpayer identification number in the appropriate box. For most individuals, this is your social security number. If you do not have a number, see *How to Obtain a TIN.*

Note: *If the account is in more than one name, see the chart on page 2 for guidelines on which number to give the payer.*

Social security number

OR

Employer identification number

Part II **For Payees Exempt From Backup Withholding (See Instructions)**

Certification.—Under penalties of perjury, I certify that:

(1) The number shown on this form is my correct Taxpayer Identification Number (or I am waiting for a number to be issued to me), **and**

(2) I am not subject to backup withholding either because I have not been notified by the Internal Revenue Service (IRS) that I am subject to backup withholding as a result of a failure to report all interest or dividends, or the IRS has notified me that I am no longer subject to backup withholding.

Certification Instructions.—You must cross out item (2) above if you have been notified by IRS that you are subject to backup withholding because of underreporting interest or dividends on your tax return. However, if after being notified by IRS that you were subject to backup withholding you received another notification from IRS that you are no longer subject to backup withholding, do not cross out item (2). (Also see *Certification* under *Specific Instructions.*)

Please Sign Here **Signature ▶** **Date ▶**

Instructions

(Section references are to the Internal Revenue Code.)

Purpose of Form

Complete this form and give it to the payer of interest, dividends, and certain other payments (including broker and barter exchange transactions) so that you will not be subject to the 20% backup withholding that became effective January 1, 1984.

Use this form to report and certify your taxpayer identification number (TIN) to the payer, to certify that you are not subject to backup withholding because of underreporting interest and dividends on your tax return, and to claim exemption from backup withholding if you are an exempt payee.

If you do not complete this form properly and return it to the payer, the payer may be required to withhold 20% of payments made to you.

Note: *If a payer gives you a form other than a W-9 to request your TIN, you must use the payer's form.*

What Is Backup Withholding

The Interest and Dividend Tax Compliance Act of 1983 requires payers to withhold and pay to IRS 20% of payments of interest, dividends, and certain other payments under certain conditions. This is called "backup withholding." If you give the payer your correct TIN, certify your TIN when required, and report all your taxable interest and dividends on your tax return, your payments will not be subject to backup withholding.

Payments you receive will be subject to backup withholding if:

(1) You do not furnish your TIN to the payer, or

(2) IRS notifies the payer that you furnished an incorrect TIN, or

(3) You are notified by IRS that you are subject to backup withholding because you failed to report all your interest and dividends on your tax return (for interest and dividend accounts only), or

(4) You fail to certify to the payer that you are not subject to backup withholding under (3) above (for interest and dividend accounts opened after 1983 only), or

(5) You fail to certify your TIN. This applies only to interest, dividend, broker, or barter exchange accounts opened after 1983, or broker accounts considered inactive in 1983.

For other payments, you are subject to backup withholding only if (1) or (2) above applies.

Certain payees and payments are exempt from backup withholding and information reporting. See *Payees and Payments Exempt from Backup Withholding,* on this page, and *Exempt Payees and Payments* under *Specific Instructions,* on page 2, if you are an exempt payee.

How to Obtain a TIN

If you do not have a TIN, you should apply for one immediately. To apply for the number obtain **Form SS-5,** Application for a Social Security Number Card (for individuals), or **Form SS-4,** Application for Employer Identification Number (for businesses and all other entities), at your local office of the Social Security Administration or the Internal Revenue Service. Complete and file the appropriate form according to its instructions.

If you do not have a TIN, write "Applied For" in the space for the TIN in Part I, sign and date the form, and give it to the payer. You will then have 60 days to obtain a TIN and furnish it to the payer. During the 60-day period, the payments you receive will not be subject to the 20% backup withholding. However, if the payer does not receive your TIN from you within 60 days, backup withholding will begin and continue until you furnish your TIN to the payer.

Note: *Writing "Applied For" on the form means that you have already applied for a TIN,* **OR** *that you intend to apply for one in the near future.*

As soon as you receive your TIN, complete another Form W-9, include your new TIN, sign and date the form, and give it to the payer.

Payees and Payments Exempt from Backup Withholding

The following lists payees that are exempt from backup withholding and information reporting. For interest and dividends, all listed payees are exempt. For broker transactions, payees listed in (1) through (13), and a person registered under the Investment Advisers Act of 1940 who regularly acts as a broker are exempt. Payments subject to reporting under sections 6041 and 6041A are generally exempt from backup withholding only if paid to payees described in items (1) through (6), except that a corporation that provides medical and health care services or bills and collects payments for such services is not exempt from backup withholding or information reporting. Only payees described in items (2) through (6) are exempt from backup withholding for barter exchange transactions, patronage dividends, and payments by certain fishing boat operators.

(1) A corporation.

(2) An organization exempt from tax under section 501(a), or an individual retirement plan (IRA).

(3) The United States or any agency or instrumentality thereof.

(4) A state, the District of Columbia, a possession of the United States, or any subdivision or instrumentality thereof.

(5) A foreign government, a political subdivision of a foreign government, or any agency or instrumentality thereof.

(6) An international organization or any agency or instrumentality thereof.

(7) A foreign central bank of issue.

(8) A dealer in securities or commodities required to register in the U.S. or a possession of the U.S.

(9) A futures commission merchant registered with the Commodity Futures Trading Commission.

(10) A real estate investment trust.

(11) An entity registered at all times during the tax year under the Investment Company Act of 1940.

(12) A common trust fund operated by a bank under section 584(a).

(13) A financial institution.

(14) A middleman known in the investment community as a nominee or listed in the most recent publication of the American Society of Corporate Secretaries, Inc., Nominee List.

Payments of **dividends** and **patronage dividends** generally not subject to backup withholding include the following:

- Payments to nonresident aliens subject to withholding under section 1441.
- Payments to partnerships not engaged in a trade or business in the U.S. and that have at least one nonresident partner.
- Payments of patronage dividends not paid in money.
- Payments made by certain foreign organizations.

Payments of **interest** generally not subject to backup withholding include the following:

- Payments of interest on obligations issued by individuals. **Note:** *You may be subject to backup withholding if this interest is $600 or more and is paid in the course of the payer's trade or business and you have not provided your correct TIN to the payer.*
- Payments of tax-exempt interest (including exempt-interest dividends under section 852).
- Payments described in section 6049(b)(5) to nonresident aliens.
- Payments on tax-free covenant bonds under section 1451.
- Payments made by certain foreign organizations.

Payments that are not subject to information reporting are also not subject to backup withholding. For details, see the regulations under sections 6041, 6041A(a), 6042, 6044, 6045, 6049, and 6050A.

Penalties

Failure to Furnish TIN.—If you fail to furnish your correct TIN to a payer, you are subject to a penalty of $50 for each such failure unless your failure is due to reasonable cause and not to willful neglect.

Failure to Include in Income Dividend and Interest Payments.—If you fail to include any portion of an includible payment of interest, dividends, or patronage dividends in gross income, and the payment was reported to you by the payer, such failure will be treated as being due to negligence, and you will be subject to a penalty of 5% on any portion of an underpayment attributable to that failure unless there is clear and convincing evidence to the contrary.

Civil Penalty for False Information With Respect to Withholding.—If you make a false statement with no reasonable basis which results in no imposition of backup withholding, you are subject to a penalty of $500.

Criminal Penalty for Falsifying Information.—Willfully falsifying certifications or affirmations may subject you to criminal penalties including fines and/or imprisonment.

Specific Instructions

Name.—Be sure to enter your correct name. If you are an individual and your name has changed, for example, because of marriage, contact the Social Security Administration to report your new name.

Certification.—

(1) Interest, Dividend, and Barter Exchange Accounts Opened Before 1984 and Broker Accounts That Were Considered Active During 1983.—You are not required to sign the certification, however, you may do so. You are required to provide your correct TIN.

(2) Interest, Dividend, Broker and Barter Exchange Accounts Opened After 1983 and Broker Accounts That Were Considered Inactive During 1983.—You must sign the certification or backup withholding will apply. If you are subject to backup withholding and you are merely providing your correct TIN to the payer, you must cross out item (2) in the certification before signing the form.

(3) Other Payments.—You are required to furnish your correct TIN, but you are not required to sign the certification. Other payments include payments made in the course of the payer's trade or business for rents, royalties, goods (other than bills for merchandise), medical and health care services, payments to a nonemployee for services (including attorney and accounting fees), and payments to certain fishing boat crew members.

(4) Exempt Payees and Payments.—If you are exempt from backup withholding, you should complete this form to avoid possible erroneous backup withholding. Enter your correct TIN in Part I, write "EXEMPT" in the block in Part II, cross out item (2) of the certification, sign and date the form. If you are a nonresident alien or foreign entity not subject to backup withholding, give the payer a completed **Form W-8,** Certificate of Foreign Status.

(5) TIN "Applied For."—Follow the instructions under *How to Obtain a TIN,* sign and date this form.

Signature.—For a joint account, only the person whose TIN is shown in Part I should sign the form.

Privacy Act Notice.—Section 6109 requires most recipients of dividend, interest, or other payments to give taxpayer identification numbers to payers who must report the payments to IRS. IRS uses the numbers for identification purposes. Payers must be given the numbers whether or not recipients are required to file tax returns. Payers must generally withhold 20% of taxable interest, dividend, and certain other payments to a payee who does not furnish a taxpayer identification number to a payer. Certain penalties may also apply.

What Number to Give the Payer

For this type of account:	Give the SOCIAL SECURITY number of:
1. Individual	The individual
2. Two or more individuals (joint account)	The actual owner of the account or, if combined funds, the first individual on the account[1]
3. Custodian account of a minor (Uniform Gift to Minors Act)	The minor[2]
4. a. The usual revocable savings trust (grantor is also trustee)	The grantor-trustee[1]
b. So-called trust account that is not a legal or valid trust under state law	The actual owner[1]
5. Sole proprietorship	The owner[3]

For this type of account:	Give the EMPLOYER IDENTIFICATION number of:
6. A valid trust, estate, or pension trust	Legal entity (Do not furnish the identification number of the personal representative or trustee unless the legal entity itself is not designated in the account title.)[4]
7. Corporate	The corporation
8. Association, club, religious, charitable, educational, or other tax-exempt organization	The organization
9. Partnership	The partnership
10. A broker or registered nominee	The broker or nominee
11. Account with the Department of Agriculture in the name of a public entity (such as a state or local government, school district, or prison) that receives agricultural program payments	The public entity

[1] List first and circle the name of the person whose number you furnish.

[2] Circle the minor's name and furnish the minor's social security number.

[3] Show the name of the owner.

[4] List first and circle the name of the legal trust, estate, or pension trust.

Note: *If no name is circled when there is more than one name, the number will be considered to be that of the first name listed.*

Form **1040** Department of the Treasury—Internal Revenue Service

U.S. Individual Income Tax Return 1985

(X)

For the year January 1-December 31, 1985, or other tax year beginning , 1985, ending , 19 . OMB No. 1545-0074

Use IRS label. Otherwise, please print or type.

Your first name and initial (if joint return, also give spouse's name and initial) Last name

Your social security number

Present home address (number and street, including apartment number, or rural route)

Spouse's social security number

City, town or post office, state, and ZIP code

Your occupation

Spouse's occupation

Presidential Election Campaign ▶
Do you want $1 to go to this fund? ☐ Yes ☐ No
If joint return, does your spouse want $1 to go to this fund? ☐ Yes ☐ No

Note: *Checking "Yes" will not change your tax or reduce your refund.*

For Privacy Act and Paperwork Reduction Act Notice, see Instructions.

Filing Status

Check only one box.

1 ☐ Single
2 ☐ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security no. above and full name here. ____
4 ☐ Head of household (with qualifying person). (See page 5 of Instructions.) If the qualifying person is your unmarried child but not your dependent, write child's name here. ____
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19). (See page 6 of Instructions.)

Exemptions

Always check the box labeled Yourself. Check other boxes if they apply.

6a ☐ Yourself ☐ 65 or over ☐ Blind
b ☐ Spouse ☐ 65 or over ☐ Blind
Enter number of boxes checked on 6a and b ▶ ☐

c First names of your dependent children who lived with you ____
Enter number of children listed on 6c ▶ ☐

d First names of your dependent children who did not live with you (see page 6). ____
(If pre-1985 agreement, check here ▶ ☐ .)
Enter number of children listed on 6d ▶ ☐

e Other dependents:

(1) Name	(2) Relationship	(3) Number of months lived in your home	(4) Did dependent have income of $1,040 or more?	(5) Did you provide more than one-half of dependent's support?

Enter number of other dependents ▶ ☐

f Total number of exemptions claimed (also complete line 36).
Add numbers entered in boxes above ▶ ☐

Income

Please attach Copy B of your Forms W-2, W-2G, and W-2P here.

If you do not have a W-2, see page 4 of Instructions.

Please attach check or money order here.

7	Wages, salaries, tips, etc. (Attach Form(s) W-2.)		7	
8	Interest income *(also attach Schedule B if over $400)*		8	
9a	Dividends *(also attach Schedule B if over $400)* ____ , **9b** Exclusion ____		▨	
c	Subtract line 9b from line 9a and enter the result		9c	
10	Taxable refunds of state and local income taxes, if any, from the worksheet on page 9 of Instructions		10	
11	Alimony received		11	
12	Business income or (loss) *(attach Schedule C)*		12	
13	Capital gain or (loss) *(attach Schedule D)*		13	
14	40% of capital gain distributions not reported on line 13 (see page 9 of Instructions)		14	
15	Other gains or (losses) *(attach Form 4797)*		15	
16	Fully taxable pensions, IRA distributions, and annuities not reported on line 17 (see page 9)		16	
17a	Other pensions and annuities, including rollovers. Total received	17a	▨	
b	Taxable amount, if any, from the worksheet on page 10 of Instructions		17b	
18	Rents, royalties, partnerships, estates, trusts, etc. *(attach Schedule E)*		18	
19	Farm income or (loss) *(attach Schedule F)*		19	
20a	Unemployment compensation (insurance). Total received	20a	▨	
b	Taxable amount, if any, from the worksheet on page 10 of Instructions		20b	
21a	Social security benefits (see page 10). Total received	21a	▨	
b	Taxable amount, if any, from worksheet on page 11. { Tax-exempt interest ____ }		21b	
22	Other income (list type and amount—see page 11 of Instructions) ____		22	
23	Add lines 7 through 22. This is your **total income** ▶		23	

Adjustments to Income

(See Instructions on page 11.)

24	Moving expense *(attach Form 3903 or 3903F)*	24		▨
25	Employee business expenses *(attach Form 2106)*	25		▨
26	IRA deduction, from the worksheet on page 12	26		▨
27	Keogh retirement plan deduction	27		▨
28	Penalty on early withdrawal of savings	28		▨
29	Alimony paid (recipient's last name ____ and social security no. ____)	29		▨
30	Deduction for a married couple when both work *(attach Schedule W)*	30		▨
31	Add lines 24 through 30. These are your **total adjustments** ▶			31

Adjusted Gross Income

32 Subtract line 31 from line 23. This is your **adjusted gross income.** *If this line is less than $11,000 and a child lived with you, see "Earned Income Credit" (line 59) on page 16 of Instructions. If you want IRS to figure your tax, see page 13 of Instructions* ▶ 32

Tax Computation

(See Instructions on page 13.)

33	Amount from line 32 (adjusted gross income)		33
34a	If you itemize, attach Schedule A (Form 1040) and enter the amount from Schedule A, line 26 **Caution:** If you have unearned income and can be claimed as a dependent on your parents' return, check here ▶ ☐ and see page 13 of Instructions. Also see page 13 if you are married filing a separate return and your spouse itemizes deductions, or you are a dual-status alien.		34a
b	If you do not itemize but you made charitable contributions, enter your cash contributions here. (If you gave $3,000 or more to any one organization, see page 14.)	34b	
c	Enter your noncash contributions *(you must attach Form 8283 if over $500)*	34c	
d	Add lines 34b and 34c. Enter the total	34d	
e	Divide the amount on line 34d by 2. Enter the result here		34e
35	Subtract line 34a or line 34e, whichever applies, from line 33		35
36	Multiply $1,040 by the total number of exemptions claimed on line 6f (see page 14)		36
37	**Taxable income.** Subtract line 36 from line 35. Enter the result (but not less than zero)		37
38	Enter tax here. Check if from ☐ Tax Table, ☐ Tax Rate Schedule X, Y, or Z, or ☐ Schedule G		38
39	Additional taxes. (See page 14 of Instructions.) Enter here and check if from ☐ Form 4970, ☐ Form 4972, or ☐ Form 5544		39
40	Add lines 38 and 39. Enter the total ▶		40

Credits

(See Instructions on page 14.)

41	Credit for child and dependent care expenses *(attach Form 2441)*	41	
42	Credit for the elderly and the permanently and totally disabled *(attach Schedule R)*	42	
43	Residential energy credit *(attach Form 5695)*	43	
44	Partial credit for political contributions for which you have receipts	44	
45	Add lines 41 through 44. These are your total personal credits		45
46	Subtract line 45 from line 40. Enter the result (but not less than zero)		46
47	Foreign tax credit *(attach Form 1116)*	47	
48	General business credit. Check if from ☐ Form 3800, ☐ Form 3468, ☐ Form 5884, ☐ Form 6478	48	
49	Add lines 47 and 48. These are your total business and other credits		49
50	Subtract line 49 from line 46. Enter the result (but not less than zero) ▶		50

Other Taxes

(Including Advance EIC Payments)

51	Self-employment tax *(attach Schedule SE)*		51
52	Alternative minimum tax *(attach Form 6251)*		52
53	Tax from recapture of investment credit *(attach Form 4255)*		53
54	Social security tax on tip income not reported to employer *(attach Form 4137)*		54
55	Tax on an IRA *(attach Form 5329)*		55
56	Add lines 50 through 55. This is your **total tax** ▶		56

Payments

Attach Forms W-2, W-2G, and W-2P to front.

57	Federal income tax withheld	57	
58	1985 estimated tax payments and amount applied from 1984 return	58	
59	Earned income credit (see page 16)	59	
60	Amount paid with Form 4868	60	
61	Excess social security tax and RRTA tax withheld (two or more employers)	61	
62	Credit for Federal tax on gasoline and special fuels *(attach Form 4136)*	62	
63	Regulated Investment Company credit *(attach Form 2439)*	63	
64	Add lines 57 through 63. These are your **total payments** ▶		64

Refund or Amount You Owe

65	If line 64 is larger than line 56, enter amount **OVERPAID** ▶		65
66	Amount of line 65 to be **REFUNDED TO YOU** ▶		66
67	Amount of line 65 to be applied to your 1986 estimated tax ▶	67	
68	If line 56 is larger than line 64, enter **AMOUNT YOU OWE.** Attach check or money order for full amount payable to "Internal Revenue Service." Write your social security number and "1985 Form 1040" on it ▶ Check ▶ ☐ if Form 2210 (2210F) is attached. See page 17. **Penalty:** $		68

Please Sign Here

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

▶ Your signature | Date ▶ Spouse's signature (if filing jointly, BOTH must sign)

Paid Preparer's Use Only

Preparer's signature ▶ | Date | Check if self-employed ☐ | Preparer's social security no.

Firm's name (or yours, if self-employed) and address ▶ | E.I. No. | ZIP code

Department of the Treasury
Internal Revenue Service

1985 Instructions for preparing Form 1040

and instructions for Schedules A, B, C, D, E, F, and SE

(Tax Table—pages 37-42)

From the Commissioner

Here is the information you need to prepare Form 1040 and related schedules. You may, however, be able to file one of our shorter forms, Form 1040A or 1040EZ, instead. Check "Which Form To File" on page 3 of the instructions to see which form you should use this year.

There have been a number of changes to the forms this year because of tax law changes that are effective for 1985. Most importantly, the Tax Table and Tax Rate Schedules have been adjusted so that inflation will not increase your tax. Similarly, the amount allowed as a deduction for each exemption has been increased to $1,040 and the zero bracket amounts for all filing statuses have been increased. Other major changes are explained on page 2 under "Important Tax Law Changes." I urge you to read these carefully before you begin to prepare your return this year.

Be sure to report all your income. In fairness to the vast majority of taxpayers who correctly report all their income, we make every effort to identify others who understate their income. If we must increase your tax liability after you file your return, it can be more costly for you than accurate reporting when you file because of interest and penalties you may be charged.

Many people find that rounding off cents to whole dollars makes calculations easier. Rounding is easy too. Just drop amounts under 50 cents and increase amounts that are 50 cents or more to the next whole dollar. See the instructions on page 8.

After completing your return, check to make sure it is correct, sign it, and mail it early. Please be sure to keep a copy for your records. If you have any suggestions for improving the forms or instructions, please write and let us know.

Finally, last year some of you received your refunds later than usual because of problems that arose from major changes we made to our returns processing system. We regret the difficulties and inconvenience that resulted. The changes were necessary to enable us to keep pace with increased demands on our employees and equipment. We believe that last year's problems have been resolved, and we are continuing to make every effort to improve the level of service to the public.

Roscoe L. Egger, Jr.
Commissioner of Internal Revenue

Important Tax Law Changes

Exemption for Children of Divorced or Separated Parents. Generally, for 1985, if you did not have custody of your child, you may claim that child as your dependent only if:

- the parent who had custody of that child waives the right to claim the exemption by completing **Form 8332,** Release of Claim to Exemption for Child of Divorced or Separated Parents, and you attach that form to your tax return, **OR**
- a divorce decree or written agreement executed before 1985 states that you are entitled to claim the child's exemption, and you paid at least $600 for the child's support.

For more details, see **Children of Divorced or Separated Parents** on page 7.

Alimony. If you received alimony or separate maintenance payments in 1985, you must let the payer know your social security number. If you deduct alimony you paid, you must show the recipient's social security number on your tax return. Also, for divorce or separation instruments executed after 1984, new rules apply in determining whether the payments qualify as alimony. If you received alimony, see the instructions for line 11 on page 9 for more details. If you paid alimony, see the instructions for line 29 on page 12 for more details.

Deduction for Charitable Contributions. Generally, for 1985, if you do not itemize your deductions, you may deduct one-half of your qualified charitable contributions. New rules also apply if you made contributions of property other than cash. See the instructions for lines 34b through 34e on page 14 for more details.

Earned Income Credit. For 1985, the income limit has increased to $11,000. See the instructions for line 59 on page 16 for more details.

New Information Required for Business Use of Vehicles. Beginning in 1985, you must answer certain questions on **Form 2106,** Employee Business Expenses, if you were an employee and you claim a deduction for business use of an auto or a light truck. Get Form 2106 for more details. Similar questions are on **Form 4562,** Depreciation and Amortization, for other persons who use a vehicle in their business.

Important Reminders

Estimated Tax Payments—Retirees and Others With Income Not Subject to Income Tax Withholding. If you have income generally not subject to income tax withholding (such as interest, dividends, pensions, or capital gains), you may have to make estimated tax payments. If you do not pay enough estimated tax or do not have enough tax withheld, you may be charged a penalty. For more details, get **Publication 505,** Tax Withholding and Estimated Tax.

Social Security Benefits May Be Taxable. If you received social security benefits, part of these benefits may be taxable under certain conditions. Be sure to read the **IRS Notice 703** that you should get from the Social Security Administration with **Form SSA-1099** by January 31, 1986. See the instructions for lines 21a and 21b that begin on page 10.

Could You Pay Less Tax by Income Averaging? If there has been a large increase in your income this year, you may be able to pay less tax by using the income averaging method to figure your tax. Get **Schedule G** (Form 1040) to see if you qualify.

Tax Shelter Registration Number. A person who sells (or otherwise transfers) to you an interest in a tax shelter must maintain a list of investors and give you the tax shelter registration number assigned to the tax shelter. You must attach to your tax return **Form 8271,** Investor Reporting of Tax Shelter Registration Number, to report this number. Penalties are provided if you fail to report this number on your tax return.

Do You Want More or Less Income Tax Withheld in 1986? If the refund you receive is large, you may want to decrease your withholding for 1986. If you are a working married couple, or had two or more jobs, or had income not subject to withholding, you may need to have more tax withheld to avoid owing IRS a large amount. See **Income Tax Withholding for 1986** on page 17 for more details.

Employment Taxes for Household Employers. If you have a household employee, both you and the employee may have to pay a share of the social security tax on the employee's wages. You may also have to pay Federal unemployment tax, which is for your employee's unemployment insurance. For more details, get **Publication 503,** Child and Dependent Care Credit, and Employment Taxes for Household Employers.

Assembling Your Return. Attach all schedules and forms in order of the "sequence number" that is shown below the year in the upper right corner of the schedule or form. Attach other forms in numerical order and any additional information sheets at the end of your return. See **Step 6** on page 4 for more details.

Voluntary Contributions To Reduce the Public Debt. We often receive inquiries about how people may make voluntary contributions to reduce the public debt. If you wish to contribute, just enclose in your tax return envelope a separate check made payable to "Bureau of the Public Debt." Subject to the limitations on charitable contributions, you may deduct this contribution on your 1986 tax return. But please be sure to keep your contribution to reduce the public debt separate from any amount you owe on your tax return. Make your check for taxes payable to "Internal Revenue Service."

Mailing Your Return. If you received an envelope with your forms booklet, please use it. Otherwise, see **Where To File** on page 18. You may be filing your return with a different Service Center this year because the IRS has changed the filing location for several areas.

Telephone Service for Tax Refund Information. If it has been at least 10 weeks since you mailed your 1985 tax return, you may be able to call a special telephone number for your area to find out the status of your income tax refund. For details on how to use this service, see **How To Use Tele-Tax Information** (the page numbers are in the index).

How To Use This Instruction Booklet

The instructions are divided into 5 main sections.

- **Section 1** contains information on who must file, how to choose the correct form to use, and when to file a return.
- **Section 2** contains helpful steps to get you ready to prepare your return.
- **Section 3** contains line-by-line instructions for most of the lines on the return.
- **Section 4** contains general information.
- **Section 5** contains instructions for most of the lines on many of the schedules that may be attached to Form 1040.

If you follow the steps in Section 2 and the line-by-line instructions in Section 3, we feel you can fill in your return quickly and accurately. You may also find some of the publications and **Tele-Tax Information** listed in the instructions helpful.

Section 1

Filing Information

First, be sure you need to file a tax return.

Your marital status, filing status, age, and gross income determine whether you have to file a tax return. Gross income usually means money, goods, and property you received on which you must pay tax. It does not include nontaxable benefits. See pages 7 and 8 of the instructions to find out which types of income you should include.

Use the following chart to see whether you **must file a tax return.**

Who Must File

You must file a tax return if—

Your marital status at the end of 1985 was:	**and your filing status is:**	**and at the end of 1985 you were:**	**and your gross income was at least:**
Single (including divorced and legally separated)	Single or Head of household	under 65	$3,430
		65 or over	$4,470
Married with a dependent child (or a child whom you cannot claim as a dependent because of the rules on page 7 for **Children of Divorced or Separated Parents**) and living apart from your spouse during last 6 months of 1985	Head of household	under 65	$3,430
		65 or over	$4,470
Married and living with your spouse at end of 1985 (or on the date your spouse died)	Married, joint return	under 65 (both spouses)	$5,620
		65 or over (one spouse)	$6,660
		65 or over (both spouses)	$7,700
	Married, separate return	any age	$1,040
Married, not living with your spouse at end of 1985	Married, joint return or separate return	any age	$1,040
Widowed in 1984 or 1983 and not remarried in 1985	Single or Head of household	under 65	$3,430
		65 or over	$4,470
	Qualifying widow(er) with dependent child	under 65	$4,580
		65 or over	$5,620
Widowed before 1983 and not remarried in 1985	Single or Head of household	under 65	$3,430
		65 or over	$4,470

Other Filing Requirements. Even if your income was less than the amounts shown above, you must file a return if any one of the following applied for 1985:

- You could be claimed as a dependent on your parents' return and you had $1,040 or more in income that was not earned income—for example, taxable interest and dividends.
- You owe any special taxes, such as:
  - —social security tax on tips you did not report to your employer;
  - —uncollected social security tax or RRTA tax on tips you reported to your employer;
  - —alternative minimum tax;
  - —tax on an Individual Retirement Arrangement (IRA); or
  - —tax from recapture of investment credit.
- You received any advance earned income credit (EIC) payments from your employer(s).
- You had net earnings from self-employment income of at least $400.
- You had wages of $100 or more from a church or qualified church-controlled organization that is exempt from employer social security taxes.
- You exclude income from sources within U.S. possessions and your gross income was at least $1,040.

These rules apply to all U. S. citizens and resident aliens. They also apply to nonresident aliens and dual-status aliens who are married to U.S. citizens or residents at the end of 1985 and who have elected to be treated as resident aliens.

If you were a nonresident alien at any time during 1985 (except as mentioned above), different rules apply. You may have to file **Form 1040NR,** U.S. Nonresident Alien Income Tax Return. Also get **Publication 519,** U.S. Tax Guide for Aliens.

Note: *Beginning in 1985, specific rules apply to determine if you are a resident or nonresident alien. See Publication 519 for details.*

Who Should File

Even if you do not have to file, you should file to get a refund if Federal income tax was withheld from any payments to you. Also file if you can take the earned income credit. If you file for either of these reasons only, you may be able to use Form 1040A (or in some instances, Form 1040EZ).

When To File

You should file as soon as you can after January 1, but not later than April 15, 1986.

If you file late, you may have to pay penalties and interest. Please see the instructions for **Penalties and Interest** on page 18.

If you know that you cannot file by the due date, you should ask for an extension using **Form 4868,** Application for Automatic Extension of Time To File U.S. Individual Income Tax Return.

Note: *Form 4868 does not extend the time to pay your income tax. See the instructions for Form 4868.*

If you are living or traveling outside the United States and Puerto Rico on April 15, you can get an automatic 2-month extension of time to file. Just attach a statement to your return explaining the details.

Which Form To File

You MAY Be Able To Use Form 1040EZ If:

- You were single and claim only your own personal exemption.
- You had **only** wages, salaries, and tips, and not more than $400 of interest income.

- Your taxable income is less than $50,000.
- You do not itemize deductions or claim any adjustments to income or tax credits.

You can use Form 1040EZ to deduct part of certain charitable contributions.

You MAY Be Able To Use Form 1040A If:

- You had income only from wages, salaries, tips, unemployment compensation, interest, or dividends.
- Your taxable income is less than $50,000.
- You do not itemize deductions.

You can also use Form 1040A to claim the deduction for a married couple when both work, the deduction for certain contributions to an Individual Retirement Arrangement (IRA), the credit for child and dependent care expenses, and the partial deduction for charitable contributions.

Since Forms 1040A and 1040EZ are easier to complete than Form 1040, you should use one of them unless using Form 1040 lets you pay less tax. However, even if you meet the above tests, you must file Form 1040 if any of the following situations applies to you.

You MUST Use Form 1040 If:

- Your taxable income is $50,000 or more.
- You itemize deductions. (Read line 34a instructions that begin on page 13 to see if it would benefit you to itemize.)
- Your spouse files a separate return and itemizes deductions. Exception: You may still use Form 1040A if you have a child and can meet the tests on page 5 under **Married Persons Who Live Apart.**
- You can be claimed as a dependent on your parents' return **AND** you had interest, dividends, or other unearned income of $1,040 or more.
- You are a qualifying widow(er) with a dependent child.
- You were a nonresident alien during any part of 1985 and do not file a joint return. (You may have to file **Form 1040NR**.)
- You were married at the end of 1985 to a nonresident alien who had U.S. source income and who has not elected to be treated as a resident alien. Exception: You may be able to use Form 1040A if you meet the tests on page 5 under **Married Persons Who Live Apart.**
- You received taxable social security benefits or tier 1 railroad retirement benefits.
- You received interest as a nominee.
- You received or paid accrued interest on securities transferred between interest payment dates.
- You received any nontaxable dividends, capital gain distributions, dividends as a nominee, or you elect to exclude qualified reinvested dividends from a qualified public utility.
- You are required to fill in Part III of Schedule B for foreign accounts and foreign trusts (see page 23 of the instructions).
- You take any of the adjustments to income shown on Form 1040, lines 24, 25, 27, 28, 29, or any write-in amount included on line 31.
- You claim any of the credits on Form 1040, lines 42, 43, 47, 48, or any write-in credit included on lines 45 or 49.
- You owe any of the taxes on Form 1040, lines 39, 51 through 55, or any write-in amount included on line 56 (other than advance EIC payments).
- You claim any of the payments on Form 1040, lines 58, 62, 63, or any write-in amount included on lines 63 or 64.
- You file any of these forms:

Form 1040-ES, Estimated Tax for Individuals, for 1985 (or if you want to apply any part of your 1985 overpayment to estimated tax for 1986).

Schedule G, Income Averaging.

Form 2210, Underpayment of Estimated Tax by Individuals.

Form 2555, Foreign Earned Income.

Form 4563, Exclusion of Income From Sources in United States Possessions.

Form 8271, Investor Reporting of Tax Shelter Registration Number.

Section 2

Steps for Preparing Your Return

Follow the six useful steps below to help you prepare your return. If you follow these steps and read the line-by-line instructions, we feel that you can fill in your return quickly and accurately.

Step 1

Get all of your records together.

Income Records. These include any Forms **W-2, W-2G, W-2P,** and **1099** that you may have. If you don't get a Form W-2 by January 31, or if the one you get isn't correct, please contact your employer as soon as possible. Only your employer can give you a Form W-2, or correct it. If you cannot get a Form W-2 by February 15, call the toll-free telephone number listed in the instructions for your area.

If you have someone prepare your return for you, make sure that person has all your income and expense records so he or she can fill in your return correctly. Remember, if someone else prepares your return incorrectly—you are still responsible.

Itemized Deductions and Tax Credits. Pages 14 through 22 of these instructions tell you what credits and itemized deductions you can take. Some of the records you may need are:

- Medical and dental payment records.
- Real estate and personal property tax receipts.
- Interest payment records for items such as a home mortgage, car, or appliances.
- Records of payments for child and dependent care so you could work.

Step 2

Get any forms, schedules, or publications you need.

In general, we mail forms and schedules to you based on what you filed last year. Before you fill in your return, look it over to see if you need more forms or schedules.

If you think you will need any other forms, get them before you start to fill in your return. Your local bank, post office, or public library may have some of them. Or, you can use the order blank on the next to the last page of this instruction booklet. We will send you the forms, schedules, instructions, and publications you ask for.

Step 3

Check your return to make sure it is correct.

Step 4

Use the mailing label we sent you.

The label helps us identify your account and saves processing time.

Step 5

Sign and date your return.

Form 1040 is not considered a return unless you sign it. Your spouse must also sign if it is a joint return.

Step 6

Attach all necessary forms and schedules.

Attach the first copy or Copy B of Forms W-2, W-2G, and W-2P to the front of Form 1040. Attach schedules and forms in "sequence number" order. The number is just below the year in the upper right corner of the schedule or form.

If you need more space on forms or schedules, attach separate sheets and use the same format as the printed forms, but show your totals on the printed forms. Please use sheets that are the same size as the forms and schedules. Be sure to put your name and social security number on these separate sheets and attach them at the end of your return.

If you owe tax, be sure to attach your payment to the front of Form 1040.

Use the envelope we sent you. Envelopes with insufficient postage will be returned by the post office.

Section 3

Line-By-Line Instructions

Name, Address, and Social Security Number Blocks

Please use the mailing label from the forms booklet we sent you. But don't attach your label to your return until you complete the return. Make sure the label is correct. If it isn't, mark through the label and make corrections on the label. Show your apartment number if you have one. If you do not have a label, print or type your name, address, and social security number.

If the label is for a joint return and the social security numbers are not listed in the same order as the first names, show the numbers in the correct order.

Note: *If the post office delivers mail to your P.O. box number rather than to your street address, use your P.O. box number instead of your street address.*

Social Security Number. If you are married, give social security numbers for both you and your spouse whether you file joint or separate returns.

If your spouse is a nonresident alien, has no income, does not have a social security number, and you file a separate return, write "NRA" in the block for your spouse's social security number. If you and your spouse file a joint return, your spouse must get a social security number.

If you don't have a social security number, please get **Form SS-5** from a Social Security Administration (SSA) office. File it with your local SSA office early enough to get your number before April 15. If you do not get the number by then, file your return and write "Applied for" in the block for your social security number.

Name Change. If you have changed your name because of marriage, divorce, etc., make sure you immediately notify the Social Security Administration (SSA) so the name on your tax return is the same as the name SSA has on its records. This may prevent delays in issuing your refund.

Joint Return. If you are married, filing a joint return, show the social security numbers in the same order that you show your first names. If you are filing a joint return and have different last names, please separate the names with an "and." For example: "John Brown and Mary Smith."

Remember to show your occupation(s) in the spaces in the upper right corner just below the social security number blocks.

Presidential Election Campaign Fund

Congress established this fund to support public financing of Presidential election campaigns.

You may have $1 go to the fund by checking the **Yes** box. On a joint return, each of you may choose to have $1 go to this fund, or each may choose not to. One may choose to have $1 go to this fund and the other may choose not to.

If you check **Yes,** it will not change the tax or refund shown on your return.

Do not claim this amount as a credit for political contributions on line 44.

Filing Status

Lines 1 through 5 Boxes

Single

Consider yourself single if on December 31 you were unmarried or separated from your spouse either by divorce or separate maintenance decree and you do not qualify for another filing status. State law governs whether you are married, divorced, or legally separated.

If you were married on December 31, consider yourself married for the whole year. If you meet the tests explained on this page for **Married Persons Who Live Apart**, you may consider yourself single for the whole year and file as head of household.

If your spouse died during 1985, consider yourself married to that spouse for the whole year, unless you remarried before the end of 1985.

Married

Joint or Separate Returns?

Joint Returns. Most married couples will pay less tax if they file a joint return. You must report all income, exemptions, deductions, and credits for you and your spouse. Both of you must sign the return, even if only one of you had income.

You and your spouse can file a joint return even if you did not live together for the whole year. Both of you are responsible for any tax due on a joint return, so if one of you does not pay, the other may have to.

Note: *If you file a joint return, you may not, after the due date of the return, choose to file separate returns for that year.*

If your spouse died in 1985, you can file a joint return for 1985. You can also file a joint return if your spouse died in 1986 before filing a 1985 return. For details on how to file the joint return, see **Death of Taxpayer** on page 19.

Tax Tip: *If you decide not to file a joint return and plan to file a separate return, see if you can lower your tax by meeting the tests described on this page under* ***Married Persons Who Live Apart.***

Special Rule for Aliens.—If at the end of 1985, you were a nonresident alien or dual-status alien married to a citizen or resident of the United States, you may be able to file a joint return with your spouse. If you do file a joint return, you and your spouse must agree to be taxed on your combined worldwide income. For more details, get **Publication 519,** U.S. Tax Guide for Aliens.

Separate Returns. You can file separate returns if both you and your spouse had income, or if only one of you had income.

If you file a separate return, you each report only your own income, exemptions, deductions, and credits, and you are responsible only for the tax due on your own return.

Special rules apply, however, for taxpayers who live in community property states. For details, get **Publication 555.**

In most instances if you file a separate return, you will pay more Federal tax because the tax rate is higher for married persons filing separately. The following also apply:

- You cannot take the deduction for a married couple when both work.
- You cannot take the credit for child and dependent care expenses in most cases.
- You cannot take the earned income credit.
- If you lived with your spouse at any time in 1985—

a. You will have to include in income more of any unemployment compensation you received in 1985.

b. You cannot take the credit for the elderly and the permanently and totally disabled.

c. You may have to include in income up to one-half of any social security benefits (including any tier 1 railroad retirement benefits) you received in 1985.

- You must itemize your deductions if your spouse itemizes, even if it is not to your tax benefit to itemize deductions.

If you file a separate return, write your spouse's full name in the space after Box 3 and your spouse's social security number in the block provided for that number.

If your spouse does not file, check the boxes on line 6b that apply if you can claim the exemptions for your spouse. Please see **For Your Spouse** on page 6.

Married Persons Who Live Apart. Some married persons who have a child and who do not live with their spouse may file as head of household and use tax rates that are lower than the rates for single or for married filing a separate return. This also means that if your spouse itemizes deductions, you do not have to. You may also be able to claim the earned income credit.

You should check Box 4, Head of household, if you meet **ALL** 4 of the following tests:

1. You file a separate return from your spouse.

2. You paid more than half the cost to keep up your home in 1985.

3. Your spouse did not live with you at any time during the last 6 months of 1985.

4. For over 6 months of 1985, your home was the principal home of your child or stepchild whom—

a. you can claim as a dependent, **OR**

b. the child's other parent claims as a dependent under the rules explained on page 7 for **Children of Divorced or Separated Parents.** (Write this child's name in the space provided on line 4.)

Head of Household

Tax Tip: *The tax rates for a person who can meet the tests for head of household are lower than the rates for single or for married filing a separate return.*

You may use this filing status **ONLY IF** on December 31, 1985, you were unmarried (including certain married persons who live apart, as discussed above) or legally separated and meet test **1** or **2** below:

1. You paid more than half the cost of keeping up a home, which was the principal home of your father or mother whom you can claim as a dependent. **OR**

2. You paid more than half the cost of keeping up the home in which you lived and in which one of the following also lived for more than 6 months of the year (except for temporary absences, such as for vacation or school):

a. Your **unmarried** child, grandchild, adopted child, or stepchild. This child does not have to be your dependent. However, your foster child must be your dependent.

Note: *If this child is not your dependent, you must write the child's name in the space provided on line 4.*

b. Your **married** child, grandchild, adopted child, or stepchild. This child must be your dependent. But if your married child's other parent claims him or her as a dependent under the rules on page 7 for **Children of Divorced or Separated Parents,** this child does not have to be your dependent. (If your child is not your dependent because of these rules, you must write the child's name in the space provided on line 4.)

c. Any other relative listed below whom you can claim as a dependent.

Parent
Grandparent
Brother
Sister
Stepbrother
Stepsister
Stepmother
Stepfather
Mother-in-law
Father-in-law
Brother-in-law
Sister-in-law
Son-in-law
Daughter-in-law, or
if related by blood:
  Uncle
  Aunt
  Nephew
  Niece

Note: *See instructions for lines 6c through 6e below for the definition of dependent.*

Special rules

- If you receive payments under the Aid to Families with Dependent Children (AFDC) program and use them to pay part of the cost of keeping up this home, you may not count these amounts as furnished by you.
- You cannot file as head of household if you claim a relative in **1** or **2** on page 5 as a dependent under a **Multiple Support Declaration.** (See page 7 for details on dependents supported by two or more taxpayers.)

Qualifying Widow or Widower With a Dependent Child

If your spouse died in 1984 or 1983 and you did not remarry in 1985, you may be able to use joint return tax rates for 1985. You can figure your tax at joint return rates if you meet **ALL** 3 of the following tests:

1. You could have filed a joint return with your spouse for the year your spouse died, even if you didn't actually do so.

2. Your dependent child, stepchild, adopted child or foster child lived with you (except for temporary absences, such as for vacation or school).

3. You paid over half the cost of keeping up the home for this child for the whole year.

Check Box 5, Qualifying widow(er) with dependent child, and show the year your spouse died in the space provided. **Do not** claim an exemption for your spouse.

If your spouse died before 1983 and you were single in 1985, you may check Box 4 if you met the tests under **Head of Household.** Otherwise you must file as single.

Exemptions

Line 6a Boxes

For Yourself

You can always take one exemption for yourself. Take two exemptions if you were blind, or 65 or over. Take three exemptions if you were blind and 65 or over. Be sure to check all the boxes on line 6a for the exemptions you can take for yourself.

You can take the extra exemptions for age 65 or over and blindness only for yourself and your spouse. You cannot take them for dependents.

Age and blindness are determined as of December 31. However, if your 65th birthday was on January 1, 1986, you can take the extra exemption for age for 1985.

Proof of Blindness. If you are completely blind, attach a statement to your return to this effect.

In cases of partial blindness, you must attach to your return each year a certified statement from an eye physician or registered optometrist that:

a. You cannot see better than 20/200 in the better eye with glasses, or contact lenses, or

b. Your field of vision is not more than 20 degrees.

If this eye condition will never improve beyond the standards in **a** or **b**, you may submit a certified opinion to this effect from an examining eye physician. You must attach this certification to your return only once. In later years you can just include a statement referring to it.

Line 6b Boxes

For Your Spouse

You can take exemptions for your spouse if you file a joint return. If you file a separate return, you can take your spouse's exemptions only if your spouse is not filing a return, had no income, and was not the dependent of someone else.

Your spouse's exemptions are like your own. Take one exemption for your spouse if your spouse was neither blind nor 65 or over. Take two exemptions if your spouse was blind or 65 or over. Take three exemptions if your spouse was blind and 65 or over. Be sure to check all the boxes on line 6b for the exemptions you can take for your spouse.

If at the end of 1985, you were divorced or legally separated, you cannot take an exemption for your former spouse. If you were separated by a divorce that is not final (interlocutory decree), you are considered married for the whole year.

If your spouse died during 1985 and you did not remarry before the end of 1985, check the boxes for the exemptions you could have taken for your spouse on the date of death.

Nonresident Alien Spouse. If you do not file a joint return, you may claim your spouse's exemptions only if your spouse had no income from United States sources and is not the dependent of another taxpayer. Use the boxes on line 6b to claim exemptions for a nonresident alien spouse. When claiming your spouse's exemption, please write "NRA" above the word Spouse on line 6b.

Lines 6c through 6e

Children and Other Dependents

Line 6c. Enter the first names of your dependent children who lived with you (except for temporary absences, such as for vacation or school). Fill in the total number in the box to the right of the arrow.

Line 6d. Enter the first names of your dependent children who did not live with you most of the year. Fill in the total number in the box on the right. If you are claiming a child under the rules explained on page 7 for **Children of Divorced or Separated Parents,** you must either:

- attach **Form 8332,** Release of Claim to Exemption for Child of Divorced or Separated Parents, or similar statement, **OR**
- check the box for pre-1985 agreements.

Line 6e. Enter the full names and other information for your other dependents. Fill in the total number in the box to the right of the arrow. You can take an exemption for each person who is your dependent.

Birth or Death of Dependent. You can take an exemption for a dependent who was born or who died during 1985 if he or she met the tests for a dependent while alive. This means that a baby who lived only a few minutes can be claimed as a dependent.

For more information, please get **Publication 501,** Exemptions.

Each person you claim as a dependent has to meet **ALL** 5 of these tests:

1. income;
2. support;
3. married dependent;
4. citizenship or residence; and
5. relationship.

These tests are explained below.

1. Income

In general, the person must have received less than $1,040 of gross income. Gross income does not include nontaxable income, such as welfare benefits or nontaxable social security benefits.

Beginning in 1985, income received by a permanently and totally disabled person for services performed at a sheltered workshop school is not included in gross income for purposes of the income test if:

- the medical care available at the workshop was the main reason the person was there, and
- the income was earned from activities at the workshop that were incident to the medical care.

See Publication 501 for the definition of a sheltered workshop school.

Special Rules for Your Dependent Child. Even if your child had income of $1,040 or more, you can claim your child as a dependent if tests 2, 3, and 4 below are met, and:

- your child was under 19 at the end of 1985, or
- your child was enrolled as a full-time student at a school during any 5 months of 1985, or
- your child took a full-time, on-farm training course during any 5 months of 1985. (The course had to be given by a school or a state, county, or local government agency.)

The school must have a regular teaching staff, a regular course of study, and a regularly enrolled body of students in attendance.

A school includes:

- elementary, junior, and senior high schools;
- colleges and universities; and
- technical, trade, and mechanical schools.

However, school does not include on-the-job training courses or correspondence schools.

2. Support

In general, you must have given over half of the dependent's support in 1985. If you file a joint return, the support can be from you or your spouse. Even if you did not give over half of the dependent's support, you will be treated as having given over half of the support if you meet the tests explained on page 7 for **Children of Divorced or Separated Parents** or **Dependent Supported by Two or More Taxpayers.**

In figuring total support, you must include money the dependent used for his or her own support, even if this money was not taxable (for example, gifts, savings, welfare benefits). If your child was a student, do not include amounts he or she received as scholarships.

Support includes items such as food, a place to live, clothes, medical and dental care, recreation, and education. In figuring support, use the actual cost of these items. However, the cost of a place to live is figured at its fair rental value.

Do not include in support items such as income and social security taxes, premiums for life insurance, or funeral expenses.

Capital items—You must include capital items such as a car or furniture in figuring support, but only if they are actually given to, or bought by, the dependent for his or her use or benefit. Do not include the cost of a capital item for the household or for use by persons other than the dependent.

If you care for a foster child, see **Publication 501** for special rules that apply.

Children of Divorced or Separated Parents. The parent who has custody of a child for most of the year (the custodial parent) can generally take the exemption for that child if the child's parents together paid more than half of the child's support. Beginning in 1985, this general rule also applies to parents who did not live together at any time during the last 6 months of the year. But the parent who does not have custody, or who has the child for the shorter time (the noncustodial parent), may take the exemption if either **a** or **b** below, applies.

a. The custodial parent signs **Form 8332,** Release of Claim to Exemption for Child of Divorced or Separated Parents, or similar statement, agreeing not to claim the child as a dependent for 1985, and the noncustodial parent attaches the form or similar statement, to his or her 1985 tax return, **OR**

b. A decree of divorce or separate maintenance (or a written agreement) that was in effect before 1985 states that the noncustodial parent can take the exemption and he or she gave at least $600 for the child's support in 1985. The noncustodial parent must check the box on line 6d for pre-1985 agreements. (This rule does not apply if the decree or agreement was modified after 1984 to specify that the noncustodial parent cannot claim the exemption.)

Note: *In figuring support, a parent who has remarried may count the support provided by the new spouse.*

Dependent Supported by Two or More Taxpayers. Sometimes two or more taxpayers together pay more than half of another person's support, but no one alone pays over half of the support. One of the taxpayers may claim the person as a dependent only if the tests for income, married dependent, citizenship or residence, and relationship, discussed on page 6 and this page are met.

In addition, the taxpayer who claims the dependent must:

a. have paid more than 10% of the dependent's support; and

b. attach to his or her tax return a signed **Form 2120,** Multiple Support Declaration, from every other person who paid more than 10% of the support. This form states that the person who signs it will not claim an exemption in 1985 for the person he or she helped to support.

3. Married Dependent

The dependent did not file a joint return. However, if neither the dependent nor the dependent's spouse is required to file, but they file a joint return to get a refund of all tax withheld, you may claim him or her if the other 4 tests are met.

4. Citizenship or Residence

The dependent **must have been** a citizen or resident of the United States, a resident of Canada or Mexico, or an alien child adopted by and living the entire year with a U.S. citizen in a foreign country.

5. Relationship

The dependent met test **a** or **b** below.

a. Was related to you (or your spouse if you are filing a joint return) in one of the following ways:

Child
Stepchild
Mother
Father
Grandparent
Brother
Sister
Grandchild

Stepbrother
Stepsister
Stepmother
Stepfather
Mother-in-law
Father-in-law
Brother-in-law
Sister-in-law

Son-in-law
Daughter-in-law
or, if related by blood:
  Uncle
  Aunt
  Nephew
  Niece

Note: *Any relationships that have been established by marriage are not ended by death or divorce.*

b. Was any other person who lived in your home as a member of your household for the whole year. **A person is not a member of your household** if at any time during your tax year the relationship between you and that person violates local law.

The word child includes:

- Your son, daughter, stepson, or stepdaughter, or adopted son or daughter.
- A child who lived in your home as a member of your family if placed with you by an authorized placement agency for legal adoption.
- A foster child (any child who lived in your home as a member of your family for the whole year).

Income

Examples of Income You Do Not Report

(Do not include these amounts when you decide if you must file a return.)

Welfare benefits.

Disability retirement payments (and other benefits) paid by the Veterans' Administration.

Workers' compensation benefits, insurance damages, etc., for injury or sickness.

Child support.

Gifts, money, or other property you inherited or that was willed to you.

Dividends on veterans' life insurance.

Life insurance proceeds received because of a person's death.

Interest on certain state and municipal bonds.

Amounts you received from insurance because you lost the use of your home due to fire or other casualty to the extent the amounts were more than the cost of your normal expenses while living in your home. (You must report as income reimbursements for normal living expenses.)

Amounts an employer contributed on your behalf and benefits provided to you as an employee or the spouse or dependent of an employee, under a qualified group legal services plan.

Cancellation of certain student loans where the student, under the terms of the loan, performs certain professional services for any of a broad class of employers.

Examples of Income You Must Report

The following kinds of income should be reported on Form 1040, or related forms and schedules. You may need some of the forms and schedules listed below.

Wages, including salaries, fringe benefits, bonuses, commissions, fees, and tips.

Dividends (Schedule B).

Interest (Schedule B) on:
  bank deposits, bonds, notes;
  U.S. Savings Bonds;
  mortgages on which you receive payments;
  tax refunds;
  certain arbitrage bonds issued by state and local governments; and
  accounts with savings and loan associations, mutual savings banks, credit unions, etc.

In certain instances, part of Federal social security benefits (and tier 1 railroad retirement benefits) may be taxable. (See line 21 instructions on page 10.)

Tier 2 and supplemental annuities under the Railroad Retirement Act.

Original Issue Discount (Schedule B).

Unemployment compensation (insurance). (See page 10.)

Distributions from an Individual Retirement Arrangement (IRA), including SEPs and DECs.

Amounts received in place of wages, from accident and health plans (including sick pay and disability pensions) if your employer paid for the policy.

Bartering income (fair market value of goods or services you received in return for your services).

Business expense reimbursements you received that are more than you spent for these expenses.

Alimony, separate maintenance, or support payments received from and deductible by your spouse or former spouse.

Refunds of state and local taxes if you deducted the taxes in an earlier year and got a tax benefit for them.

Life insurance proceeds from a policy you cashed in if the proceeds are more than the premium you paid.

Profits from businesses and professions (Schedule C).

Your share of profits from partnerships and S corporations (Schedule E).

Profits from farming (Schedule F).

Pensions, annuities, and endowments.

Lump-sum distributions (Form 4972 or Form 5544). (See page 10.)

Gains from the sale or exchange (including barter) of real estate, securities, coins, gold, silver, gems, or other property (Schedule D or Form 4797).

Gains from the sale of your personal residence (Schedule D and Form 2119).

Rents and royalties (Schedule E).

Your share of estate or trust income (Schedule E), including accumulation distributions from trusts (Form 4970).

Prizes and awards (contests, raffles, lottery, and gambling winnings).

Earned income from sources outside the United States (Form 2555).
Director's fees.
Fees received as an executor or administrator of an estate.
Embezzled or other illegal income.

U.S. Citizens Living Abroad

Generally, foreign source income must be reported. Get **Publication 54,** Tax Guide for U.S. Citizens and Resident Aliens Abroad, for more details.

Community Property States

Community property states are: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, and Washington.

If you and your spouse live in a community property state, you must follow state law to determine what is community income and what is separate income. However, different rules could apply if:

- you and your spouse lived apart all year,
- you do not file a joint return, and
- no part of the community income you earn is transferred to your spouse.

For details, get **Publication 555,** Community Property and the Federal Income Tax.

Rounding Off to Whole Dollars

You may round off cents to the nearest whole dollar on your return and schedules. But, if you do round off, do so for all amounts. You can drop amounts under 50 cents. Increase amounts from 50 to 99 cents to the next dollar. For example: $1.39 becomes $1 and $2.69 becomes $3.

Line 7

Wages, Salaries, Tips, Etc.

Show the total of all wages, salaries, fees, commissions, tips, bonuses, supplemental unemployment benefits, and other amounts you were paid before taxes, insurance, etc., were taken out. For information on allocated tips, get **Publication 531,** Reporting Income From Tips.

Include in this total:

- The amount that should be shown in Box 10 on **Form W-2**. Report all wages, salaries, and tips you received, even if you do not have a Form W-2.
- Tips received that you did not report to your employer. (Show any social security tax due on these tips on line 54—see the instructions on page 15.)

Note: *If you do not report the full amount of your tip allocation as gross income, you must be able to prove the lesser amount reported with adequate records.*

- Certain disability pensions if you are under age 65.

Note: *Except for certain disability income, pensions shown on **Form W-2P** are reported on line 16 or line 17a of Form 1040.*

- Payments by insurance companies, etc., not included on Form W-2. If you receive sick pay or a disability payment from anyone other than your employer, and it is not included in the wages shown on Form W-2, include it on line 7. Attach a statement showing the name and address of the payer and amount of sick pay or disability income. (Get **Form W-4S** for information on withholding of Federal income tax from your sick pay.)
- Fair market value of meals and living quarters if given by your employer as a matter of your choice and not for your employer's convenience. Don't report the value of meals given you at work if they were provided for your employer's convenience. Also do not report the value of living quarters you had to accept on your employer's business premises as a condition of employment.
- Strike and lockout benefits paid by a union from union dues. Include cash and the fair market value of goods received. Don't report benefits that were gifts.
- Any amount your employer paid for your moving expenses (including the value of services furnished in kind), whether or not included on Form W-2.

Note: *You must report on line 7 all wages, salaries, etc., paid for your personal services, even if the income was signed over to a trust (including an IRA), another person, a corporation, or a tax-exempt organization.*

For more details on reporting income received in the form of goods, property, meals, stock options, etc., get **Publication 525,** Taxable and Nontaxable Income.

Fringe Benefits. If you used an employer-provided highway motor vehicle for both personal and business use and your employer included 100% of the value of the vehicle in the wages, tips, and other compensation box (Box 10) of your W-2 form, you must use **Form 2106,** Employee Business Expenses, to claim a deduction for the business use of the vehicle. You must report on Form 1040, line 7, the total amount shown in Box 10 of your W-2 form.

For more information on fringe benefits, get Publication 525.

Line 8

Interest Income

Enter your **TOTAL** taxable interest income. If the total interest is more than $400, first fill in Schedule B. (The instructions for Schedule B begin on page 22.)

Report any interest you received or that was credited to your account so you could withdraw it. (It does not have to be entered in your passbook.) Generally, the payer will send you a **Form 1099-INT** or, if applicable, a **Form 1099-OID** for this interest.

If you received interest as a nominee for someone else, see Schedule B instructions on page 22.

Caution: *Be sure to give each payer of interest income your correct social security number. Otherwise, the payer may have to withhold 20% of the interest. You may also be subject to penalties.*

For more information, get **Publication 550,** Investment Income and Expenses.

Examples of Interest Income You MUST Report

Report interest from:

- Accounts (including certificates of deposit and money market accounts) with banks, credit unions, and savings and loan associations.
- Building and loan accounts.
- Notes, loans, and mortgages. Special rules apply to loans with below-market interest rates. Get **Publication 525.**
- Tax refunds (report only the interest on them as interest income).
- Bonds and debentures. Also arbitrage bonds issued by state and local governments after October 9, 1969. (Do not report interest on other state and local bonds and securities.) Also report as interest any gain on the disposition of certain market discount bonds issued to you after July 18, 1984, to the extent of the accrued market discount.
- U.S. Treasury bills, notes, and bonds.
- U.S. Savings Bonds. The interest is the yearly increase in the value of the bond. Interest on Series E or EE bonds can be reported using method **a** or **b** below:

a. Report the total interest when you cash the bonds, or when they reach final maturity and no longer earn interest; **OR**

b. Each year report on your return the yearly increase of the bonds' value.

If you change to method **b**, report the entire increase in all your bonds from the date they were issued. Each year after report only the yearly increase. Once you have used method **b** to report your interest, you must continue to do so for all your U.S. Savings Bonds.

Note: *If you receive for 1985 a Form 1099-INT for U.S. Savings Bond interest, which includes amounts reported before 1985, see Publication 550.*

- Original Issue Discount (OID). This is the difference between the issue price of a debt instrument and the stated redemption price at maturity. If the instrument was issued at a discount after May 27, 1969 (or for certain noncorporate instruments after July 1, 1982), include in your interest income the discount for the part of the year you held it. Also include any stated interest shown on Form 1099-OID.

If you bought debt instruments at original issue and held them for all of 1985 or the part of 1985 that they were outstanding, include in interest income the total OID from Form 1099-OID. If these instruments were outstanding for all of 1985, but you did not hold them for all of 1985, figure your taxable OID as follows:

a. Instruments issued before July 2, 1982—Divide the total OID by 12 and multiply the result by the number of complete and partial months (for example, 6½ months) you held the instruments in 1985.

b. Instruments issued after July 1, 1982—Divide the total OID by 365 and multiply the result by the number of days you held the instruments in 1985, or follow the more detailed rules described in **Publication 1212,** List of Original Issue Discount Instruments.

If you had OID for 1985, but did not receive Form 1099-OID, or if the price you paid for the instrument is more than the issue price plus accumulated OID, get Publication 1212. It provides total OID on the instruments listed and gives computational information.

Line 9a

Dividends

Dividends are distributions of money, stock, or other property that corporations pay to stockholders. They also include dividends you receive through a partnership, an S corporation, or an estate or trust. Payers include nominees or other agents. Generally, the payer will send you a **Form 1099-DIV** for these dividends.

If you received dividends as a nominee for someone else, see Schedule B instructions that begin on page 22.

Caution: *Be sure to give each payer of dividends your correct social security number. Otherwise, the payer may have to withhold 20% of the dividend income. You may also be subject to penalties.*

If the total dividends, including capital gain and nontaxable distributions, are more than $400, or you elect to exclude qualified reinvested dividends from a qualified public utility, first fill in Schedule B. (The instructions for Schedule B begin on page 22.) If you received $400 or less in dividends, include only the ordinary dividends on line 9a.

Dividends Include:

- **Ordinary dividends.** These are paid out of earnings and profits and are ordinary income. Assume that any dividend you receive is an ordinary dividend unless the paying corporation tells you otherwise.
- **Capital gain distributions.** If you have other capital gains or losses, you should also enter your capital gain distributions on Schedule D. If you don't need Schedule D to report any other gains or losses, don't use it. Instead, show 40% of your capital gain distributions on Form 1040, line 14.
- **Nontaxable distributions.** Some distributions are nontaxable because they are a return of your cost. They will not be taxed until you recover your cost. You must reduce your cost (or other basis) by these distributions. After you get back all of your cost (or other basis), you must report these distributions as capital gains.

Note: *Generally, payments from a Money Market Fund are dividends.*

Do Not Report as Dividends

- Mutual insurance company dividends that reduced the premiums you paid.
- Amounts paid on deposits or accounts from which you could withdraw your money, such as mutual savings banks, cooperative banks, and credit unions. Remember to report these amounts as interest on line 8.

Exclusion for Dividend Reinvestment in Stock of Public Utilities

If you own stock in a qualified public utility and choose to receive your dividends in qualified common stock rather than in cash or other property, you may exclude up to $750 ($1,500 on a joint return) of the qualified common stock dividends distributed to you. See Schedule B instructions for details.

Line 9b

Dividend Exclusion

You can exclude (subtract) up to $100 of qualifying dividend income. If you and your spouse file a joint return, you can subtract up to $200, regardless of which spouse received the dividends.

Dividends must be from a domestic corporation to qualify for the exclusion. Dividends from mutual funds (other than money market funds) generally qualify for the exclusion. The corporation will tell you how much of the dividend qualifies.

The following taxable dividends **do not** qualify for the exclusion.

- Dividends from money market funds unless the corporation has told you how much of the dividends qualify.
- Dividends from foreign corporations, including controlled foreign corporations.
- Dividends from exempt organizations (charitable, fraternal, etc.) and exempt farmers' cooperative organizations.
- Dividends paid on stock held by employee stock ownership plans.

Line 10

Taxable Refunds of State and Local Income Taxes

If you received a refund (or credit or offset) of state or local income taxes in 1985 that you paid before 1985, you may receive **Form 1099-G,** Statement for Recipients of Certain Government Payments, or similar statement, showing the refund. You may have to report all or part of this amount as income if your itemized deduction for state and local income taxes in the year you paid the taxes resulted in a tax benefit.

Do not report the refund as income if it was for a tax you paid in a year for which you did not itemize deductions on Schedule A (Form 1040), or it was for a year in which you filed Form 1040A or Form 1040EZ.

If the refund was for a tax you paid in a year for which you itemized deductions on Schedule A, use the following worksheet to figure the amount, if any, you must report as income for 1985.

However, see **Publication 525**, Taxable and Nontaxable Income, instead of using the worksheet below if any of the following applies:

- The refund you received in 1985 is for a tax year other than 1984.
- You received a refund (other than an income tax refund, such as a real property tax refund) in 1985 of an amount you deducted or credit you claimed in an earlier year.
- Your 1984 taxable income was less than your zero bracket amount.
- Your last payment of 1984 estimated state income tax was made in 1985.

Worksheet (Keep for your records)

1. Enter the income tax refund from Form(s) 1099-G, or similar statement . . . . ______
2. Enter the amount from your 1984 Schedule A, line 26 . . . . . ______
3. **Taxable part of your refund.** Compare amounts on lines 1 and 2 above, and enter the **smaller** of the two amounts here and on Form 1040, line 10 ______

Line 11

Alimony Received

Enter amounts you received as alimony or separate maintenance. Beginning in 1985, you must let the person who made the payments know your social security number. If you do not provide this information to the payer, you may have to pay a $50 penalty. For more details, get **Publication 504,** Tax Information for Divorced or Separated Individuals.

If you received payments under a divorce or separation instrument executed after 1984, see the instructions for line 29 on page 12 for information on the new rules that apply in determining whether these payments qualify as alimony.

Transfers of Property Between Spouses or Former Spouses. In general, no gain or loss will be recognized on a transfer of property between spouses, or former spouses, if incident to divorce. Get Publication 504 for more details.

Line 14

Capital Gain Distributions

If you do not need Schedule D for other capital transactions, enter 40% of your capital gain distributions on line 14.

Line 15

Other Gains or (Losses)

If you sold or exchanged assets used in a trade or business, see the instructions for **Form 4797.** Enter the gain or (loss) from Form 4797.

Line 16

Fully Taxable Pensions, IRA Distributions, and Annuities

Use this line to report fully taxable pension and annuity income and regular individual retirement arrangement (IRA) distributions you receive. In general, you should receive a **Form W-2P** showing the amount of your pension or annuity.

Your pension or annuity payments are fully taxable if:

- you did not contribute to the cost of your pension or annuity, or
- you got back tax-free your entire cost before 1985.

Fully taxable pensions and annuities also include: military retirement pay shown on Form W-2P, and distributions from an IRA (including premature distributions, but not rollovers).

If you received taxable railroad retirement benefits (other than tier 1 benefits), enter on line 16 the amount from Box 12 of your **Form RRB-W-2P.** If an amount is shown in Box 13 of your form, get **Publication 575,** Pension and Annuity Income, for information on how to report your benefits.

Other pensions and annuities, including rollovers, should be shown on lines 17a and 17b.

For more details, get **Publication 575.**

Lines 17a and 17b

Other Pensions and Annuities, Including Rollovers

Use lines 17a and 17b to report pension and annuity income that is not fully taxable. In general, you should receive a **Form W-2P** showing the amount of your pension or annuity. If your Form W-2P does not show the taxable part of your pension or annuity, you must figure the taxable amount as explained below. Also, use these lines to report distributions from profit-sharing plans, retirement plans, employee-savings plans, and individual retirement arrangement rollovers.

If you received social security or tier 1 railroad retirement benefits, part of these benefits may be taxable. **Do not** use line 17 to report any of these benefits. Instead, see the instructions for lines 21a and 21b.

The pension, annuity, or employee-savings plan may not be taxable until a later year if:

a. both you and your employer contributed to it, and

b. the total amount you can expect to receive within 3 years from the date you get your first payment equals or exceeds your full cost.

If you meet the requirements of **a** and **b** above, complete the pension and annuity worksheet below to figure the taxable part of your pension or annuity. After you get back your full cost, all payments you receive are fully taxable. Your cost includes amounts you contributed and amounts your employer contributed, which you reported as income.

Example.—You retired in 1985 with a monthly pension of $200. Both you and your employer contributed to it. Your pension cost was $4,925. The amount you can expect to receive within 3 years is $7,200 (36 months × $200 = $7,200). Since this amount is more than your cost, you should exclude your pension until the payments total $4,925. After that, they are fully taxable and you should report them on line 16.

For more information on pensions and annuities, get **Publication 575,** Pension and Annuity Income. Retirees from the Federal government should get **Publication 567,** U.S. Civil Service Retirement and Disability. For information on military disability pensions, get **Publication 525,** Taxable and Nontaxable Income.

Pension and Annuity Worksheet

(Keep for your records)

1a. Enter your cost . . . . ________

b. Cost recovered in prior years . . . ________

c. Subtract line 1b from line 1a . . . ________

2. Amount received this year. Also enter this amount on Form 1040, line 17a . . . . ________

3. Amount on line 2 that is not taxable (but not more than line 1c) ________

4. **Taxable part.** Subtract line 3 from line 2. Enter the result here and on Form 1040, line 17b (if zero, enter –0–) . . . . ________

Note: *If you had more than one pension or annuity that is not fully taxable, figure the taxable part of each separately. Enter the total of the taxable parts on Form 1040, line 17b.*

If the amount you expect to receive within 3 years will not equal or exceed your cost, you must use a special method to report your pension or annuity income. For more details, get Publication 575. If you must use this method, enter the amount you received this year on line 17a. Enter the taxable part on line 17b.

Caution: *Certain transactions, such as loans against your interest in a qualified plan, may be taxable distributions and may also be subject to penalties. For more information, see Publication 575.*

Total Distributions From Profit-Sharing, Retirement Plans, and Individual Retirement Arrangements

Rollover Distributions. A "rollover" is a tax-free transfer of cash or other assets from one retirement program to another. For example, there are two kinds of rollovers to an individual retirement arrangement (IRA): (1) a rollover from one IRA to another, and (2) a rollover from a qualified pension or profit-sharing plan to an IRA.

Rollover distributions are reported to you on **Form 1099-R**. For a rollover distribution, enter the total distribution (excluding your nondeductible contribution, if any) on line 17a. If the total on line 17a was rolled over, enter zero on line 17b. Otherwise, enter the taxable part as ordinary income on line 17b.

For more details on IRA rollovers, get **Publication 590,** Individual Retirement Arrangements (IRAs). For details on other rollovers, including distributions under qualified domestic relations orders, get **Publication 575.**

Lump-Sum Distributions. If you received a lump-sum distribution from a profit-sharing or retirement plan, report the ordinary income part on line 16 of Form 1040 and the capital gain part on Schedule D (Form 1040). Form 1099-R shows the amount of the distribution. You may pay less tax on this distribution if you are eligible to use the special 10-year averaging method. (This method cannot be used for lump-sum distributions from IRA plans.) For more details, get **Form 4972,** Special 10-Year Averaging Method, or **Form 5544,** Multiple Recipient Special 10-Year Averaging Method, and separate instructions.

Beneficiaries—Death Benefit Exclusion

If you are the beneficiary of a deceased employee or deceased former employee, amounts paid to you by, or on behalf of, an employer because of the death of the employee may qualify for a death benefit exclusion of up to $5,000.

Special rules apply if you are the survivor under a joint and survivor's annuity. For details, get **Publication 575**.

If you are entitled to this exclusion, add it to the cost of the pension or annuity.

Lines 20a and 20b

Unemployment Compensation

Unemployment compensation (insurance) you receive may be taxable under certain conditions.

You should receive a statement on **Form 1099-G,** Statement for Recipients of Certain Government Payments, showing the total unemployment compensation paid to you during the year. For payments in 1985, you should receive this statement by January 31, 1986.

Note: *Supplemental unemployment benefits received from a company-financed supplemental unemployment benefit fund are wages. They are not considered unemployment compensation for purposes of this computation. Report these benefits on Form 1040, line 7.*

To see if any of the unemployment compensation is taxable, fill in the worksheet that follows:

Unemployment Compensation Worksheet (Keep for your records)

Check only one box

☐ **A.** Married filing a joint return—enter $18,000 on line 8 below.

☐ **B.** Married not filing a joint return and lived with your spouse at any time during the year—enter -0- on line 8 below.

☐ **C.** Married not filing a joint return and **DID NOT** live with your spouse at any time during the year—enter $12,000 on line 8 below.

☐ **D.** All others—enter $12,000 on line 8 below.

1. Enter total unemployment compensation from **Form(s) 1099-G** here and on Form 1040, line 20a . . . . ________

2. If you received an overpayment of unemployment compensation in 1985 and repaid it in 1985, enter the repayment here. Also write "repayment" and show the amount repaid on the dotted line to the left of line 20b . . . . ________

3. Subtract line 2 from line 1 . . . . . ________

4. Add the amounts shown on Form 1040, lines 7 through 19, plus line 22 (do not include any unemployment compensation in this figure) . . . . ________

5. Add lines 3 and 4 . . . . ________

6. Add the amounts shown on Form 1040, lines 24 through 29, plus any write-in adjustments included in the total on line 31. Do not include any amount from line 30 . . ________

7. Subtract line 6 from line 5 . . . . . ________

8. Enter { $18,000 if you checked box **A,** or -0- if you checked box **B,** or $12,000 if you checked box **C** or **D** } ________

9. Subtract line 8 from line 7. If zero or less, enter -0- on Form 1040, line 20b. Do not complete lines 10 or 11. Otherwise, go on to line 10. . ________

10. Divide the amount on line 9 by 2 . . ________

11. **Taxable unemployment compensation.** Compare amounts on lines 3 and 10 above, and enter the **smaller** of the two amounts here and on Form 1040, line 20b . . . . . ________

Lines 21a and 21b

Social Security Benefits (and Tier 1 Railroad Retirement Benefits)

Social security benefits you receive may be taxable in some instances. Social security benefits include any monthly benefit under title II of the Social Security Act or a tier 1 railroad retirement benefit. However, social security benefits do not include any Supplemental Security Income (SSI) payments.

You should receive a **Form SSA-1099** showing the total social security benefits paid to you in 1985, and the amount of any social security benefits you repaid in 1985. You should receive this statement by January 31, 1986. If you received tier 1 railroad retirement benefits, you should receive **Form RRB-1099.** For more information, get **Publication 915,** Tax Information on Social Security Benefits (and Tier 1 Railroad Retirement Benefits).

Use the worksheet on page 11 to see if any of your benefits are taxable, but please note the following before you begin to complete it.

- You will first need to complete Form 1040, lines 7 through 20b, 22, and 24 through 29 if they apply to you to figure the taxable part, if any, of your benefits.
- If you repaid any benefits in 1985, and your total repayments (Box 4) were more than your total benefits for 1985 (Box 3), **do not** use the worksheet below. None of your benefits are taxable for 1985. But you may be able to take an itemized deduction for part of the excess repayments if you had any taxable benefits in 1984. Get Publication 915 for details.
- If you file **Form 2555** or **Form 4563**, or you exclude income from sources within Puerto Rico, use the worksheet in Publication 915 instead of the one below.

Social Security Benefits (and Tier 1 Railroad Retirement Benefits) Worksheet (Keep for your records)

Check box A, B, C, or D below, whichever applies to you. Check only one box. Then go on to line 1 of the worksheet below.

☐ **A.** Single—enter $25,000 on line 8 below.
☐ **B.** Married filing a joint return—enter $32,000 on line 8 below.
☐ **C.** Married not filing a joint return and lived with your spouse at any time during the year—enter -0- on line 8 below.
☐ **D.** Married not filing a joint return and **DID NOT** live with your spouse at any time during the year—enter $25,000 on line 8 below.

1. Enter the total amount from **Box 5** of **ALL** your **Forms SSA-1099 and Forms RRB-1099** (if applicable). . . . . ________

***Note:** If line 1 is zero or less, stop here; none of your benefits are taxable. Otherwise, go on to line 2.*

2. Divide the amount on line 1 by 2 ________
3. Add the amounts on Form 1040, lines 7 through 20b, plus line 22. Do not include here any amounts from Box 5 of Forms SSA-1099 or RRB-1099 . . . . ________
4. Enter any tax-exempt interest income you received in 1985. Also enter this interest in the space provided to the left of line 21b. **DO NOT** include this interest on line 21b . . . . ________
5. Add lines 2, 3, and 4 . . . . ________
6. Add the amounts on Form 1040, lines 24 through 29. Also enter on this line any write-in amount included on line 31. **Do not** include any amount entered on Form 1040, line 30 . . . . ________
7. Subtract line 6 from line 5 . . . . ________
8. Enter { $25,000 if you checked box **A** or **D**, or $32,000 if you checked box **B**, or -0- if you checked box **C** } ________
9. Subtract line 8 from line 7 . . . . ________

***Note:** If line 9 is zero or less, stop here. Do not enter any amounts on lines 21a and 21b because none of your benefits are taxable. Otherwise, go on to line 10.*

10. Divide the amount on line 9 by 2 ________
11. **Taxable social security benefits.**
    - First, enter on Form 1040, line 21a, the amount from line 1 above.
    - Then, compare the amounts on lines 2 and 10 above, and enter the **smaller** of the two amounts on this line and also on Form 1040, line 21b . . . ________

***Note:** If part of your benefits are taxable for 1985 **AND** they include benefits paid in 1985 that were for 1984, you may be able to reduce the taxable amount shown on the worksheet. Get Publication 915 for details.*

Line 22

Other Income

Use line 22 to report any income you can't find a place for on your return or other schedules. List the type and amount of income. For more information, see Miscellaneous Taxable Income, in **Publication 525,** Taxable and Nontaxable Income.

***Caution:** Do not report any income from self-employment on line 22. If you do have any income from self-employment, you must use Schedule C or Schedule F. Amounts your employer paid you for business expenses that are more than you spent for the actual business expenses should be added to the wages shown on line 7 unless they were already included in your Form W-2.*

Examples of income to be reported on line 22 are:

- Prizes, awards, and gambling winnings. Proceeds from lotteries, raffles, etc., are gambling winnings. You must report the full amount of your winnings on this line. You cannot offset losses against winnings and report the difference.

If you had any gambling losses, you may take them as an itemized deduction on Schedule A. However, you cannot deduct more losses than the winnings you report.

- Repayment of medical expenses or other items such as real estate taxes that you deducted in an earlier year if they reduced your tax. See Publication 525 for information on how to figure the amount to include in income.
- Amounts you recovered on bad debts that you deducted in an earlier year.
- Fees received for jury duty and precinct election board duty.

Net Operating Loss. If you had a net operating loss in an earlier year to carry forward to 1985, enter it as a minus figure on line 22. Attach a statement showing how you figured the amount. Get **Publication 536,** Net Operating Losses and the At-Risk Limits, for more details.

Adjustments to Income

Line 24

Moving Expense

Employees and self-employed persons (including partners) can deduct certain moving expenses. The move had to be in connection with your job or business.

You can take this deduction only if your change in job location has added at least 35 miles to the distance from your old residence to your work place. If you had no former principal work place, your new principal work place must be at least 35 miles from your former residence.

If you meet these requirements, you should see **Form 3903** for details. Use Form 3903 to figure the amount of moving expenses to show on line 24. If you began work at a new work place outside the United States or its possessions, see **Form 3903F.**

If your employer paid for any part of your move, you must report that amount as income on Form 1040, line 7. Your employer should give you a **Form 4782** and include the amount paid in the wages, tips, and other compensation box (Box 10) on your **Form W-2.**

Line 25

Employee Business Expenses

You can deduct certain business expenses that were not paid by your employer. Travel, transportation (but not commuting to and from work), and meals and lodging can be deducted on line 25 even if you do not itemize deductions on Schedule A. You must use **Form 2106** to claim the deduction. All other business expenses, such as union or professional dues, tools, and uniforms, that were not paid by your employer can be deducted only as an itemized deduction on Schedule A. Outside salespersons must use Form 2106 to claim their business expenses on line 25. For details, see **Tele-Tax Information** in the index (topic no. 214) or get **Publication 463,** Travel, Entertainment, and Gift Expenses.

Line 26

Individual Retirement Arrangement (IRA) Deduction

You can deduct on line 26 contributions made to your IRA (including those made under a Simplified Employee Pension (SEP) plan or to a plan that accepts deductible employee contributions (DECs)). **Schedule C or F filers with a SEP and partners with a SEP take the deduction on line 27.**

You should receive a statement showing contributions made to your IRA for 1985. Before you figure your IRA deduction, please note the following:

- If you made contributions to your IRA in 1985 that you deducted on your 1984 Form 1040, **do not** include those contributions on your 1985 tax return.
- If you made contributions to your IRA in 1986 (by April 15, 1986) for 1985, be sure to include these contributions when you figure your IRA deduction for 1985.
- If your IRA deduction on line 26 is less than your IRA contributions and you do not withdraw this excess contribution before your return is due, you must file **Form 5329** and pay the tax due on the excess contribution.
- If you are married and you and your spouse work and you both have IRAs, figure each spouse's deduction separately. Then combine the two deductions and enter the total of the two amounts on line 26.

- If you are married and made contributions to your nonworking spouse's IRA for 1985, you must file a joint return for 1985 to deduct these contributions.
- Do not include rollover contributions in figuring your deduction. See line 17 instructions on page 10 for more details on rollover contributions.
- Do not include trustee's fees that were billed separately and paid by you for your IRA. These fees can be deducted only as an itemized deduction on Schedule A.

***Tax Tip:** Beginning in 1985, alimony payments received under certain divorce or separation instruments are considered earned income for purposes of the IRA deduction. Get **Publication 590,** Individual Retirement Arrangements (IRAs), for details.*

Use the worksheet below to figure your IRA deduction. However, if any of the following applies, use the worksheet in Publication 590 instead of the one below to figure your deduction:

1. Your employer made contributions to your IRA under a SEP plan. Under a SEP plan, you can deduct the smallest of: the amount of your employer's contributions to your SEP-IRA that is included in your income, 15% of your wages or other earned income, or $30,000.
2. You made deductible employee contributions (DECs) to a qualified employer plan.
3. You file **Form 2555,** Foreign Earned Income, to exclude income or housing costs.

IRA Worksheet (Keep for your records)

Your IRA—Complete lines 1 through 4 if you worked (or received alimony that qualifies as earned income) and had an IRA. (If you are married and both spouses work and both have IRAs, figure each spouse's deduction separately.)

1a. Amount contributed to your IRA in 1985 that you are deducting for 1985

***Note:** Do not include on line 1a any amount you contributed in 1985 and deducted on your 1984 return, any employer's SEP contributions, any DECs, or any rollover contributions.*

1b. Amount contributed to your IRA in 1986, by April 15, 1986, that you are deducting for 1985

1c. Add lines 1a and 1b. Enter the total

2. Enter your wages and other earned income from Form 1040, minus any deduction you claim on Form 1040, line 27. (Do not include your spouse's income and do not reduce your wages by losses from self-employment.)

3. Maximum amount $2,000

4. Compare amounts on lines 1c, 2, and 3, and enter the **smallest** of the three amounts on line 4. If you do not have an IRA for your nonworking spouse, stop here and enter the amount from line 4 of this worksheet on Form 1040, line 26. Otherwise, go on to line 5a

Complete lines 5a through 10 ONLY if you made contributions to your nonworking spouse's IRA.

5a. Amount contributed to your nonworking spouse's IRA in 1985 that you are deducting for 1985

***Note:** Do not include on line 5a any amount you contributed in 1985 and deducted on your 1984 return, or any rollover contributions.*

5b. Amount contributed to your nonworking spouse's IRA in 1986, by April 15, 1986, that you are deducting for 1985

5c. Add lines 5a and 5b. Enter the total

6. Enter the amount from line 2 of this worksheet

7. Maximum amount $2,000

8. Compare amounts on lines 5c, 6, and 7, and enter the **smallest** of the three amounts on line 8

9. Add amounts on lines 4 and 8 and enter the total, but **do not** enter more than $2,250

10. Compare amounts on lines 6 and 9 and enter the **smaller** of the two amounts on line 10. Also enter this amount on Form 1040, line 26.

Line 27

Keogh Retirement Plan Deduction

***Caution:** You must be self-employed to claim this deduction. Sole proprietors and partners enter the allowable deduction for contributions to your Keogh plan and your SEP on line 27.*

There are two types of Keogh retirement plans:

- **Defined-contribution plan.**—This plan provides an individual account for each person in the plan. In general, if contributions to the plan are geared to the employer's profits, the plan is a profit-sharing plan. If contributions are not based on the employer's profits, the plan is a money purchase pension plan.
- **Defined-benefit plan.**—The deduction for this type of plan is determined by the investment needed to fund a specific benefit at retirement age. Write "DB" on the line to the left of the amount if you have a defined-benefit plan.

For more details, get **Publication 560,** Self-Employed Retirement Plans.

Line 28

Penalty on Early Withdrawal of Savings

The **Form 1099-INT** given to you by your bank or savings and loan association will show the amount of any penalty you were charged because you withdrew funds from your time savings deposit before its maturity. Enter this amount on line 28. (Be sure to include the interest income on Form 1040, line 8.)

Line 29

Alimony Paid

You can deduct periodic payments of alimony or separate maintenance made under a court decree. You can also deduct payments made under a written separation agreement or a decree for support. Don't deduct lump-sum cash or property settlements, voluntary payments not made under a court order or a written separation agreement, or amounts specified as child support. For details, see **Tele-Tax Information** in the index (topic no. 219) or get **Publication 504,** Tax Information for Divorced or Separated Individuals.

Caution: Beginning in 1985, you must enter the recipient's last name, if different than yours, and his or her social security number in the space provided on line 29. If you don't, you may have to pay a $50 penalty and your deduction may be disallowed. If you paid alimony to more than one person, enter the social security number and last name, if applicable, of one of the recipients. Show the required information for the other recipient(s) on an attached statement. Enter your total payments on line 29.

Divorce or Separation Instruments Executed After 1984. Generally, you may deduct any payment made in cash to, or on behalf of, your spouse or former spouse under a divorce or separation instrument executed after 1984 if:

- the instrument does not prevent the payment from qualifying as alimony, **and**
- you and your spouse or former spouse did not live together when the payment was made if you were separated under a decree of divorce or separate maintenance, **and**
- the instrument states that you are not required to make any payment after the death of your spouse or former spouse, **and**
- the payment is not treated as child support.

These rules also apply to certain instruments modified after 1984. Other rules apply if you paid more than $10,000 in any calendar year. For more details on the new rules, see Publication 504.

Line 30

Deduction for a Married Couple When Both Work

You can claim a deduction if:

- you are married filing a joint return,
- both you and your spouse have qualified earned income, and
- you do not file **Form 2555** or **Form 4563.**

Complete **Schedule W (Form 1040)** to figure the amount of your deduction.

Line 31

Total Adjustments

Add lines 24 through 30 and enter the total on line 31. Also include in the total on line 31 any of the following adjustments.

Forestation/Reforestation Amortization. If you can claim a deduction for amortization of the costs of forestation or reforestation and you do not have to file Schedule C or Schedule F for this activity, include your deduction in the total on line 31. Write "Reforestation" in the space to the left of the total.

Repayment of Sub-pay Under the Trade Act of 1974. If you repaid supplemental unemployment benefits (sub-pay) that you previously reported in income because you became eligible for payments under the Trade Act of 1974, include the amount you repaid in 1985 in the total on line 31. Write "Sub-pay TRA" in the space to the left of the total. Or, you may be able to claim a credit against your tax instead. Get **Publication 525,** Taxable and Nontaxable Income, for more details.

Line 32

Adjusted Gross Income

If line 32 is less than zero, you may have a net operating loss that you can carry to another tax year. If you carry the loss back to earlier years, see **Form 1045.** For more information, get **Publication 536,** Net Operating Losses and the At-Risk Limits.

IRS Will Figure Your Tax and Some of Your Credits

If you want us to, we will figure your tax for you. If you paid too much, we will send you a refund. If you did not pay enough, we will bill you for the balance. You will not be charged interest or the penalty for late payment if the bill for tax due is paid within 30 days of the notice date, or by the due date for your return, whichever is later.

We can figure your tax if you meet **all** of the conditions described below:

- All of your income for 1985 was from one or more of these sources:

a. Salaries, wages, and tips.

b. Interest.

c. Dividends.

d. Pensions or annuities.

- You do not itemize deductions.
- You do not file **Schedule G,** Income Averaging.
- You do not file **Form 2555,** Foreign Earned Income.
- Your adjusted gross income (line 32) is not more than $50,000.
- You (and your spouse if you are filing a joint return) sign and date your return and mail it by April 15, 1986.
- You do not want any of your refund applied to next year's estimated tax.
- You give us enough information so that we can figure the tax. Please read the following instructions:

a. Fill in the parts of your return through line 37 that apply to you. The Line-By-Line Instructions that start on page 4 explain how to fill in your return.

b. Read lines 41 through 64. Fill in the lines that apply to you, but do not fill in the Total lines. Please be sure to fill in line 57 for Federal income tax withheld. See the instruction below if you want us to figure your Credit for the Elderly and the Permanently and Totally Disabled or Earned Income Credit.

c. If you are filing a joint return, use the space under the words "Adjustments to Income" on the front of your return to show your taxable income and your spouse's taxable income separately.

d. Fill in any forms or schedules asked for on the lines you completed, and attach them to the return when you file it.

We will figure the following credits too. Fill in your return through line 37 as explained above. Follow the instructions below and sign, date, and mail it before the due date.

Credit for the Elderly and the Permanently and Totally Disabled.—If you qualify to take this credit, follow the instructions below. Be sure to attach **Schedule R** to your return. Write "CFE" on the dotted line to the left of line 42.

Check the box on Schedule R for your filing status and age, and fill in lines 11 and 13 if applicable. Also, complete Part II if applicable.

Earned Income Credit.—If you qualify to take this credit (see the instructions for line 59 on page 16), write "EIC" on line 59.

Tax Computation

Line 34a

You will fall into one of these three classes below:

- You **MUST** itemize deductions, or
- You choose to itemize, or
- You do not itemize.

The three classes are described below.

You MUST Itemize Deductions

You must itemize deductions if:

A. You can be claimed as a dependent on your parents' return and had interest, dividends, or other unearned income of $1,040 or more. Generally, this means that you must complete and attach Schedule A and complete the worksheet on this page. However, there are two exceptions to this rule:

Exception 1. You don't have to itemize deductions on Schedule A or complete the worksheet if you have earned income* of $2,390 or more if single ($1,770 or more if married filing a separate return). Enter zero (0) on line 34a and go on to line 34b.

Exception 2. You don't have to use Schedule A if you know that your earned income* is more than your itemized deductions. Instead, use the worksheet on this page after completing line 33 of Form 1040 and enter your earned income on line 3 of the worksheet.

Note: *If your unearned income is less than $1,040, you don't have to use Schedule A or the worksheet—enter zero (0) on line 34a and go on to line 34b.*

In any case, be sure to check the box below line 34a.

B. You are married, filing a separate return, and your spouse itemizes deductions.

C. You file **Form 4563** to exclude income from sources in U.S. possessions. (Please get **Publication 570,** Tax Guide for U.S. Citizens Employed in U.S. Possessions, for more details.)

D. You had dual status as a nonresident alien for part of 1985, and during the rest of the year you were either a resident alien or a U.S. citizen. However, you do not have to itemize if you file a joint return with your spouse who was a U.S. citizen or resident at the end of 1985 and you and your spouse agree to be taxed on your combined worldwide income.

After you've completed Schedule A:

a. If Schedule A, line 24, is more than line 25, enter the amount from Schedule A, line 26, on Form 1040, line 34a. Do not complete the worksheet on this page.

b. If Schedule A, line 25, is more than line 24, **do not** fill in Form 1040, line 34a. Go to the worksheet on this page instead and complete it to figure the amount to enter on Form 1040, line 35.

Worksheet (Keep for your records)

1. Enter the amount from Form 1040, line 33 . . . . ________

2. If you checked Form 1040, Filing Status Box:
2 or 5, enter $3,540 . . .
1 or 4, enter $2,390 . . .
3, enter $1,770 . . . . } ________

3. Enter the amount from Schedule A, line 24 (or, if you can be claimed as a dependent on your parents' return, enter earned income if earned income is more) ________

Caution: *If you can be claimed as a dependent on your parents' return, be sure you check the box below line 34a of Form 1040.*

4. Subtract line 3 from line 2. . . . ________

5. Add lines 1 and 4. Enter here and on Form 1040, line 35. (Leave Form 1040, lines 34a through 34e blank. Disregard the instruction to subtract line 34a or 34e from line 33. Follow the rest of the instructions for Form 1040 to complete your return.). . . . ________

The example below may help you to complete this worksheet.

Example.—Walter Green is single and is claimed as a dependent on his parents' return. Walter's adjusted gross income, Form 1040, line 33, is $4,000. Of this amount, $1,500 was wages and $2,500 was unearned income that he received as a beneficiary of a trust. Because Walter is being claimed as a dependent on his parents' return and has unearned income of $1,040 or more and earned income of less than $2,390, he must use the worksheet. His total itemized deductions are only $500. Since this is less than his earned income ($1,500), he does not have to complete Schedule A. Walter enters $2,390, the zero bracket amount for a single individual, on line 2 and his earned income on line 3. He completes the worksheet as shown below and enters the total of $4,890 on Form 1040, line 35. He then completes his return using the instructions that follow line 35.

1.	Adjusted gross income		$4,000
2.	Zero bracket amount for a single individual	$2,390	
3.	Earned income	1,500	
4.	Subtract line 3 from line 2.		890
5.	Add lines 1 and 4. Enter here and on Form 1040, line 35 . . .		$4,890

Note: *If Walter's itemized deductions had been more than his earned income, he would have had to complete Schedule A first.*

*****Earned Income** *is income you receive for personal services you have performed. It includes wages, salaries, tips, and professional fees.*

Generally, your earned income is the total of the amount(s) you reported on Form 1040, lines 7, 12, and 19.

Earned income does not include pay for your services that included a distribution of earnings and profits other than reasonable compensation for your work for a corporation.

If you were engaged in a trade or business in which both your services and capital were important income-producing factors, your earned income will be based on a reasonable allowance for the services you performed. However, the earned income may not be more than 30 percent of your share of the net profits from the business.

You Choose To Itemize

You may choose to itemize your deductions if you are:

- Married and filing a joint return, or a Qualifying widow(er) with dependent child, and your itemized deductions are more than $3,540.
- Married and filing a separate return, and your itemized deductions are more than $1,770.
- Single, or a Head of household, and your itemized deductions are more than $2,390.

If you do itemize, complete and attach Schedule A and enter the amount from Schedule A, line 26, on Form 1040, line 34a.

Caution: *Certain taxpayers must itemize even though their itemized deductions are less than the amount shown above for their filing status. See "You MUST Itemize Deductions" on page 13.*

You Do Not Itemize

If your itemized deductions are less than the amount shown above for your filing status (or you choose not to itemize), enter zero on line 34a, unless you **MUST** itemize as described on page 13.

Lines 34b through 34e

Deduction for Charitable Contributions

For 1985, you may deduct **one-half** of what you actually gave to qualified charitable organizations if you do not itemize your deductions on Schedule A (Form 1040).

Include what you gave to, or for the use of, a qualified organization. Examples of qualified organizations are: churches, United Way, and nonprofit schools and hospitals.

Contributions may be in cash (keep cancelled checks, receipts, or other reliable written records showing the name of the organization and the date and amount given), property, or out-of-pocket expenses you paid to do volunteer work for a qualified organization.

For more details on what qualifies as a charitable contribution and the limits that apply to the amount that may be deducted, see the instructions for contributions on page 21.

Line 34b. Enter all of your cash contributions (including out-of-pocket expenses). If you gave cash of $3,000 or more to any one organization, on the dotted line next to this total show to whom and how much you gave.

Line 34c. Enter your total gifts of property. If the total is more than $500, you must complete and attach **Form 8283,** Noncash Charitable Contributions (Rev. Oct. 1985). For information on the records you must keep for gifts of property, see **Recordkeeping** on page 21.

Line 34d. Add the amounts on lines 34b and 34c.

Line 34e. Divide the amount on line 34d by 2 and enter the result on line 34e.

Line 36

Exemptions

Use the chart below to find the amount to enter on line 36. If you claimed more than ten exemptions, multiply $1,040 by the total number of exemptions entered on line 6f.

If the number on Form 1040, line 6f, is:	On Form 1040, line 36, enter:
1	$1,040
2	2,080
3	3,120
4	4,160
5	5,200
6	6,240
7	7,280
8	8,320
9	9,360
10	10,400

Line 38

Tax

To figure your tax, use one of the following methods.

Tax Rate Schedules

You must use the Tax Rate Schedules to figure your tax if your taxable income is $50,000 or more.

Also use the Tax Rate Schedules if you figure your tax using:

Income Averaging, Schedule G.—You may pay less tax by using this method if there has been a large increase in your income this year. In some cases, you may benefit even if your 1985 income did not increase substantially. This will depend on the amount of your taxable incomes in the three base years (1982-1984). Get **Schedule G** to see if you qualify.

Tax Table

If neither of the above conditions apply to you, you **MUST** use the Tax Table to find your tax.

Be sure you use the correct column in the Tax Table. After you have found the correct tax, enter that amount on line 38.

There is an example at the beginning of the table to help you find the correct tax.

Line 39

Additional Taxes

Check the box(es) on line 39 to report any of the additional taxes listed below.

Form 4970, Tax on Accumulation Distribution of Trusts.

Form 4972, Special 10-Year Averaging Method.

Form 5544, Multiple Recipient Special 10-Year Averaging Method.

Credits

Line 41

Credit for Child and Dependent Care Expenses

You may be able to take a credit on line 41 for payments you made for child and disabled dependent care while you (and your spouse if you are married) worked or looked for work.

The credit is allowed if you kept up a home that included a child under age 15 or your dependent or spouse who could not care for himself or herself. Use **Form 2441** to figure the amount of any credit.

Please see Form 2441 for more information, including special rules for divorced or separated parents and certain employment taxes for which you may be liable.

Line 42

Credit for the Elderly and the Permanently and Totally Disabled

You may be able to take this credit and reduce your tax if, by the end of 1985, you were:

- Age 65 or over, or
- Under age 65, you retired on permanent and total disability, and you had taxable disability income in 1985.

For more information, see the separate instructions for **Schedule R.** Enter the credit on line 42.

If you want IRS to figure the credit for you, see **IRS Will Figure Your Tax and Some of Your Credits** on page 13.

Line 43

Residential Energy Credit

Generally, if you installed energy saving items in your principal residence during 1985, or you have an energy credit carryover from a prior tax year, you may take a credit against your tax.

Form 5695, Residential Energy Credit, tells you which energy saving items qualify and how to take the credit.

Correction to Form 5695, line 29. Disregard the following sentence: "If less than $10, enter zero."

Line 44

Partial Credit for Political Contributions for Which You Have Receipts

You may take a tax credit on this line for contributions to candidates for public office and to newsletter funds and political committees of candidates and elected public officials.

Caution: Do not *take this credit for the $1 or $2 you checked to go to the Presidential Election Campaign Fund.*

To figure your credit, add up the amounts you gave. Enter half of this total on line 44, but do not enter more than $50 ($100 if you are married and filing a joint return).

Note: *You cannot deduct political contributions as charitable contributions.*

For more information, please get **Publication 585.**

Line 45

Add lines 41 through 44 and enter the total on line 45. Also include in the total on line 45 any Mortgage Interest Credit.

Mortgage Interest Credit. Beginning in 1985, you may be able to take a credit for part of the interest you paid on your home mortgage if you were issued a mortgage credit certificate by a state or local government under a qualified mortgage credit certificate program to buy, rehabilitate, or make improvements to your principal residence. Use **Form 8396,** Mortgage Interest Credit, to figure the credit. Include the amount of the credit in your total for line 45. On the dotted line next to this total, write "MIC" (mortgage interest credit) and show the amount.

Line 47

Foreign Tax Credit

Form 1116 explains when you can take this credit for payment of income tax to a foreign country. Also get **Publication 514.** Enter the credit from Form 1116 on line 47.

Line 48

General Business Credit

Check the box(es) on line 48 if you can take any of the three credits listed below. Use the appropriate credit form (as described below) to figure the credit. If you have only one credit, enter on line 48 the amount of the credit from the form.

However, if you have a credit carryforward or take two or more of these credits, you must also complete **Form 3800** to figure the total credit and enter on line 48 the amount from Form 3800. Also be sure to check the box on line 48 for Form 3800.

Form 3468, Computation of Investment Credit. You are allowed a credit for investing in certain types of trade or business property. Use Form 3468 to figure the credit.

Form 5884, Jobs Credit. If you are a business employer who hires people who are members of special targeted groups, you may qualify for this credit. Use Form 5884 to figure the credit. Get **Publication 906,** Jobs and Research Credits, for more details.

Form 6478, Credit for Alcohol Used as Fuel. If you sell straight alcohol (or an alcohol mixture) at retail or use it as fuel in your trade or business, you may be able to take a credit for the alcohol used as fuel. Use Form 6478 to figure the credit.

Line 49

Add amounts on lines 47 and 48 and enter the total on line 49. Also include in the total on line 49 any of the following credits.

Credit for Fuel From a Nonconventional Source. A credit is allowed for the sale of qualified fuels produced from a nonconventional source. See I.R. Code section 29 for a definition of qualified fuels, provisions for figuring the credit, and other special rules. Attach a separate schedule showing how you figured the credit. Include the credit in the total for line 49. On the dotted line next to this total, write "FNS" and show the amount.

Credit for Increasing Research Activities. You may be able to take a credit for research and experimental expenditures paid or incurred in carrying on your trade or business. Use **Form 6765** to figure the credit. Include the credit in your total for line 49. On the dotted line next to this total, write "Research" and show the amount.

Other Taxes

Line 51

Self-Employment Tax

If you had self-employment income in 1985, and earned under $39,600 in wages from which social security tax or RRTA tax was withheld, you may have to pay self-employment tax. Please see **Schedule SE (Form 1040)** and instructions. If you have to pay self-employment tax, enter the amount from Schedule SE, line 14.

Line 52

Alternative Minimum Tax

You may be liable for the alternative minimum tax if your adjusted gross income added to your tax preference items total more than:

- $40,000 if married filing jointly or qualifying widow(er) with dependent child, or
- $30,000 if single or head of household, or
- $20,000 if married filing separately.

Tax preference items include:

- dividend exclusion;
- accelerated depreciation;
- amortization of certified pollution-control facilities;
- capital gain deduction;
- mining exploration and development costs;
- reserves for losses on bad debts of financial institutions;
- depletion;
- incentive stock options;
- intangible drilling costs; and
- circulation and research and experimental expenditures.

Get **Form 6251** to see if you owe this tax.

Line 53

Tax From Recapture of Investment Credit

You may owe this tax if you disposed of investment credit property before the end of its useful life or recovery period.

See **Form 4255** for details. Enter any tax from Form 4255 on this line.

Line 54

Social Security Tax on Tip Income Not Reported to Employer

If you received tips of $20 or more in any month and you did not report the full amount to your employer, you must pay the social security or railroad retirement tax on the unreported tips.

To figure the amount of social security tax on unreported tips, complete **Form 4137** and attach it to your Form 1040. Enter the tax on this line.

To determine the amount of railroad retirement tax on unreported tips, contact your nearest Railroad Retirement Board office. On line 54, enter the tax and on the dotted line next to it, write "RRTA."

Be sure all your tips are reported as income on Form 1040, line 7.

You may be charged a penalty equal to 50% of the social security tax due on tips you received and did not report to your employer.

Line 55

Tax on an IRA

If you owe tax on any early distributions from your IRA, any excess contributions made to your IRA, or any excess accumulations in your IRA account, use **Form 5329** to figure the tax. Enter the total tax on line 55.

Line 56

Total Tax

Add lines 50 through 55. Put the total on line 56. Also include on line 56 any of the four taxes listed below that apply.

Section 72 Penalty Taxes. Beginning in 1985, if you are or were a 5% owner of a business and you received income from a premature or excessive distribution from a Keogh plan or trust, you will have to pay a penalty tax of 10% of the distribution. Get **Publication 560** for more details. Or, if you were an employee, you made any deductible contributions to your employer's qualified plan, and received income from a premature distribution, you may have to pay a penalty tax.

If you received certain premature distributions from an annuity contract, you may have to pay a 5% penalty tax on the taxable part of the distribution. Get **Publication 575** for more details.

Include the amount of the penalty in your total for line 56. On the dotted line next to this total, write "Section 72 penalty" and show the amount.

Advance Earned Income Credit (EIC) Payments. If you received advance EIC payments (AEIC), the amount will be shown on your Form W-2. Include the amount of these payments in your total for line 56. On the dotted line next to this total, write "AEIC" and show the amount.

Note: *The amount of earned income credit that you can actually take will be figured on the worksheet shown on page 16 and entered on line 59.*

Uncollected Employee Social Security and RRTA Tax on Tips. If you did not have enough wages to cover the social security tax or railroad retirement tax (RRTA) due on tips you reported to your employer, the amount of tax due will be shown on your Form W-2. Include that amount in the total on line 56. On the dotted line next to this total, write "Uncollected Tax on Tips" and show the amount.

Golden Parachute Payments. Golden parachute payments are certain payments made by a corporation to key employees to compensate them if control of the corporation changes. If you received an excess parachute payment (EPP), you must pay a tax equal to 20% of this excess payment. Include the amount of this tax in your total for line 56. On the dotted line next to this total, write "EPP" and show the amount of the tax.

If you received a Form W-2 that includes a parachute payment, the amount of tax withheld on any excess payment should be identified in Box 16 of Form W-2. Include the amount from Box 16 in the total for line 56.

If you received a **Form 1099-MISC** that includes a parachute payment, any excess payment will be separately identified on the form. Multiply the excess payment by 20% to figure the amount to include in the total for line 56.

Payments

Line 57

Total Federal Income Tax Withheld

Add the amounts shown as Federal income tax withheld on your **Forms W-2, W-2G, W-2P,** and **1099-R.** Enter the total on line 57.

If line 57 includes amounts withheld as shown on Form 1099-R, on the dotted line to the left of line 57, write "Form 1099-R."

Backup Withholding. If you were subject to backup withholding on dividends, interest income, or other income you received during 1985, include the amount withheld in the total on line 57. On the dotted line next to this total, write "Form 1099."

Line 58

1985 Estimated Tax Payments

Enter on this line any payments you made on your estimated Federal income tax (**Form 1040-ES**) for 1985. Include any overpayment from your 1984 return that you applied to your 1985 estimated tax.

If you and your spouse paid joint estimated tax but are now filing separate income tax returns, either of you can claim all of the amount paid. Or you can each claim a part of it. Please be sure to show both social security numbers on the separate returns. If you or your spouse paid separate estimated tax, but you are now filing a joint income tax return, add the amounts you each paid.

Follow the above instructions even if your spouse died.

Divorced Taxpayers. If you were divorced during 1985 and you made joint estimated tax payments with your former spouse, please enter your former spouse's social security number in the block provided on the front of Form 1040. In the upper right corner of the return, above the social security numbers, write "DIV" (divorced).

If you were divorced and remarried in 1985, enter your present spouse's social security number in the block provided on the front of Form 1040. Also, enter your former spouse's social security number in the upper right corner above the blocks and write "DIV" above that number.

Name Change. If you changed your name because of marriage, divorce, etc., and you made estimated tax payments using your former name, attach a statement to the front of Form 1040 explaining all the payments you and your spouse made in 1985, the name of the Service Center where you made the payments, and the name(s) and social security number(s) under which you made the payments.

Line 59

Earned Income Credit

The earned income credit helps many taxpayers who have a child and have incomes under $11,000. If you can take the earned income credit, you can subtract it from tax you owe or get a refund even if you had no tax withheld from your pay. The credit can be as much as $550.

Who Can Take the Earned Income Credit?

You may be able to take the credit if you meet **all** of the following conditions:

- You received wages, salaries, tips, or other earned income (see "Earned income includes" on this page), and
- The amount on Form 1040, line 33, is less than $11,000, and
- You have a child (see "Definition of Child" on this page) who lived with you in the same principal residence in the U.S. for more than 6 months during 1985 (for all of 1985 if your filing status is qualifying widow(er) with dependent child), and
- You do not file **Form 2555,** Foreign Earned Income, and
- You do not file **Form 4563,** Exclusion of Income From Sources in United States Possessions, and
- Your filing status is married filing joint return, qualifying widow(er) with dependent child, or head of household. In addition, special rules apply to each of these three filing statuses.

Married Filing Joint Return. Your child must be claimed as your dependent on Form 1040, line 6c. **Exception.** If your spouse is not your child's parent and the child's other parent (the noncustodial parent) claimed him or her as a dependent under the rules explained on page 7 for **Children of Divorced or Separated Parents,** you are eligible to take the credit if you meet all of the other conditions listed above. If you can take the credit because of this exception, you must enter the child's name on the dotted line to the left of line 59.

Qualifying Widow(er) With Dependent Child. Your child must be claimed as your dependent on Form 1040, line 6c.

Head of Household. If your child was **unmarried** for 1985, you must enter that child's name in the space provided on Form 1040, line 4 (or line 6c if you claimed that child as a dependent).

If your child was **married** for 1985, this child must be claimed as your dependent on Form 1040, line 6c. **Exception.** If this child's other parent claimed him or her as a dependent under the rules explained on page 7 for **Children of Divorced or Separated Parents,** you are eligible to take the credit if you meet all of the other conditions listed above. If you can take the credit because of this exception, you must enter the child's name on the dotted line to the left of line 59.

If you meet all of the conditions listed above, use the worksheet below to figure the credit. Otherwise, do not fill in the worksheet. Instead, write -0- on Form 1040, line 59, and go on to line 60.

If you want IRS to figure the credit for you, see **IRS Will Figure Your Tax and Some of Your Credits** on page 13.

You may be able to receive advance payments of the credit by filing **Form W-5** with your employer.

For more details about the credit, get **Publication 596,** Earned Income Credit.

Earned Income Includes:

- Wages, salaries, and tips.
- Earnings from self-employment—this is usually the amount shown on Schedule SE (Form 1040), line 9.
- Anything else of value (money, goods, or services) you get from your employer for services you performed regardless of whether it is taxable.

Note: *The following are examples of amounts received from your employer that must be included in line 1 of the worksheet—*

a. Housing allowance (or rental value of a parsonage) for members of the clergy.

b. Meals and lodging.

Earned Income does not Include items such as interest, dividends, social security payments, welfare benefits, veterans' benefits, workers' compensation, unemployment compensation (insurance), or income exempt from self-employment tax as a result of the filing and approval of **Form 4029** (relating to members of certain religious faiths).

Definition of Child. In general, for purposes of this credit, your **child** includes:

- Your son or daughter.
- Your stepchild, or adopted child.

If your filing status is **married filing a joint return** or **qualifying widow(er) with dependent child,** your child also includes a child placed with you by an authorized placement agency for adoption by you, or a

Earned Income Credit Worksheet (Keep for your records)

To figure your credit, follow the instructions below. If you checked Filing Status box 1 or 3, you cannot take the credit. Do not complete this worksheet.

1.	Enter the amount from Form 1040, line 7, plus any other compensation from your employer, regardless of whether it is taxable.	$
2.	If you were self-employed, enter the amount, even if a loss, from Schedule SE, line 9. However, if you use the optional method to figure your self-employment tax, see **Publication 596** for more information before entering an amount on line 2. If you have self-employment income that you reported on line 1 above, do not include it here.	
3.	**Earned Income.** Add lines 1 and 2. However, if line 2 is a loss, subtract line 2 from line 1. If line 3 is zero or less, stop here; you **cannot** take the credit. If line 3 is more than zero, go on to line 4.	
4.	**Adjusted gross income.** Enter the amount from Form 1040, line 33. If the amount on line 4 is $11,000 or more, stop here; you **cannot** take the credit. Otherwise, go on to line 5 or line 6, whichever applies.	
5.	If line 4 above is **$6,500 or less,** use the amount from line 3 above to find your credit in the table on page 48. Enter the credit here and on Form 1040, line 59.	
6.	If line 4 above is **over $6,500:**	▨
	a. Find the amount from line 3 above in the table on page 48 and enter the credit for that amount here. $ ____________	▨
	b. Find the amount from line 4 above in the table and enter the credit for that amount here. $ ____________	▨
	c. Enter the amount from line **6a** or **6b,** whichever is **smaller,** here and on Form 1040, line 59.	$

foster child (any other child, such as your grandchild, whom you cared for as your own child for the whole year).

If your filing status is **head of household,** your child also includes a descendant of your son, daughter, or adopted child.

If your child was born, or died, in 1985 and your home was your child's home during the part of 1985 that he or she was alive, your child is considered to have lived with you for more than 6 months or, if applicable, for all of 1985.

***Note:** Beginning in 1985, the earned income credit must be reduced by the alternative minimum tax (Form 1040, line 52). If you owe this tax, subtract it from the amount on line 5 or line 6c of the worksheet on page 16, whichever applies, and enter the result (but not less than zero) on Form 1040, line 59.*

Line 60

Amount Paid With Form 4868 (Extension of Time To File)

If you filed **Form 4868** to get an extension of time to file Form 1040, enter the amount you paid with that form. Also include any amounts paid with Forms 2688 or 2350.

Line 61

Excess Social Security Tax and RRTA Tax Withheld—Two or More Employers

If you had two or more employers in 1985 who together paid you more than $39,600 in wages, too much social security tax and railroad retirement tax (RRTA) may have been withheld from your wages. If so, you may be able to take a credit for it against your income tax.

If you are filing a joint return, you must figure this separately for yourself and your spouse. Complete the following worksheet to see if you can take the credit.

If you worked for two or more railroad employers, or if you had both RRTA tax and social security tax withheld from your wages, see **Publication 505,** Tax Withholding and Estimated Tax, for information on how to figure your excess RRTA or social security tax. **Do not** use the worksheet below.

***Caution:** If you were a U.S. Government employee who paid **only** the 1.35% hospital insurance benefits (Medicare) tax on your government wages, **do not** include on line 1 of the worksheet below the Medicare tax withheld from your government wages. See the instructions for line 63 to see if you can take a credit for excess Medicare tax paid.*

Worksheet (Keep for your records)

1. Add all social security tax withheld (but not more than $2,791.80 for each employer).* Enter the total here. . . . . ________

2. Enter any uncollected social security tax on tips included in the total on Form 1040, line 56 . . ________

3. Add lines 1 and 2 above. . . . . . ________

4. Less . . . . `-2,791.80`

5. Subtract line 4 from line 3. Enter this amount on line 61 . . . . ________

***Note:** If any one employer withheld more than $2,791.80, you should ask the employer to refund the excess to you. You cannot take credit for it on your return.*

Line 62

Credit for Federal Tax on Gasoline and Special Fuels

If you can take a credit for tax on gasoline and special fuels used in your business (including qualified taxicabs), or for certain diesel-powered cars, vans, and light trucks, please attach **Form 4136.** Enter the credit on line 62.

Line 63

Regulated Investment Company Credit

Enter on this line the total amount of the credit from **Form 2439.** Be sure to attach Copy B of Form 2439. Also include on line 63 any Excess Hospital Insurance Benefits Tax Credit.

Excess Hospital Insurance Benefits Tax Credit. If you were a U.S. Government employee whose wages in 1985 were subject **only** to the 1.35% hospital insurance benefits (Medicare) tax and you had other social security or RRTA wages that when added to your government wages total more than $39,600, too much Medicare tax may have been withheld. If so, you may take a credit for it against your income tax. Use **Form 4469,** Computation of Excess Hospital Insurance Benefits Tax Credit, to figure the credit. Include the amount of the credit in your total for line 63. On the dotted line next to this total, write "Form 4469" and show the amount.

Line 64

Total Payments

Add lines 57 through 63 and enter the total on line 64. Also include on line 64 any Overpaid Windfall Profit Tax.

Overpaid Windfall Profit Tax. You may be allowed a credit for overpaid windfall profit tax (OWPT). Use **Form 6249** to figure the overpayment. Include this amount in your total for line 64. Attach Forms 6249 and 6248 to Form 1040. On the dotted line next to this total, write "OWPT" and show the amount.

Refund or Amount You Owe

Line 65

Amount Overpaid (If line 64 is larger than line 56)

Subtract line 56 from line 64. You can choose to have all, or part, of this amount refunded to you (line 66). The remainder, if any, can be applied to your estimated tax for 1986 (line 67). If line 65 is under $1, we will send a refund only on written request.

Income Tax Withholding for 1986. If the amount you overpaid is large, get a copy of **Form W-4** from your employer to see if you are entitled to additional allowances. If you are, file a new Form W-4 with your employer to change the amount of income tax to be withheld from your wages.

If you go back to work after a period of unemployment, you may reduce the amount of income tax withheld if your employer agrees to use the part-year method of withholding. There are also other methods which could reduce your withholding.

For more details, see your employer or get **Publication 505,** Tax Withholding and Estimated Tax.

Line 66

Refund

Enter the amount from line 65 th[illegible]u want refunded to you.

Line 67

Applied to 1986 Estimated Tax

Subtract line 66 from line 65. This is the amount that will be applied to your estimated tax for 1986. Enter this amount on line 67.

We will apply amounts to your account unless you request us to apply it to your spouse's account. The request should include your spouse's social security number.

Line 68

Amount You Owe (If line 56 is larger than line 64)

Subtract line 64 from line 56. This is the amount you owe. Enter the amount on this line.

Attach your check or money order for the full amount when you file. Make it out to "Internal Revenue Service" and be sure to write your social security number and "1985 Form 1040" on it. **Do not** include any estimated tax payment in your check or money order. If line 68 is under $1, you do not have to pay.

In most cases, people who have income tax withheld from their wages will find that the amount withheld will be fairly close to their tax for the year. Sometimes it is not, and this is more likely to happen if both you and your spouse worked, or if you had two or more jobs. You may also owe more tax because you have other income on which there is no withholding, such as capital gains.

Income Tax Withholding for 1986. If you do owe tax for 1985, you may want to increase the amount of income tax withheld from your pay for 1986. Otherwise, you may be required to make estimated tax payments for 1986. See the instructions on page 18 for **Should You Make Estimated Tax Payments for 1986?**

Underpayment of Estimated Tax

If line 68 is $500 or more and more than 20% of the tax shown on your return, or you underpaid your 1985 estimated tax liability for any payment period, you may owe a penalty. Get **Form 2210 (Form 2210F** for farmers and fishermen) to see if you owe a penalty and to figure the amount of the penalty. If you owe the penalty, attach that form to Form 1040 to show how you figured it. If you do not owe the penalty because you annualized your income to figure the required payment for each payment period, also attach that form to Form 1040.

***Note:** The penalty may be waived under certain conditions. Get **Publication 505,** Tax Withholding and Estimated Tax, for details.*

If you underpaid your 1985 income tax, you will not owe a penalty or have to complete Form 2210 (or Form 2210F), if:

1. you had no tax liability for 1984;

2. you were a U.S. citizen or resident for all of 1984; and

3. your 1984 tax return was for a tax year of 12 full months.

If you attach Form 2210 or 2210F, be sure you check the box below line 68. If you owe a penalty, show the amount in the space provided below line 68.

If you owe tax, add the penalty amount to the tax due and show the total on line 68. Or, if you are due a refund, subtract the penalty amount from the overpayment you show on line 65.

Should You Make Estimated Tax Payments for 1986?

In general, you do not have to make estimated tax payments if you expect that your 1986 Form 1040 will show a tax refund, or a tax balance due IRS of less than $500. If your total estimated tax (including any alternative minimum tax) is $500 or more, please get **Form 1040-ES.** It contains a worksheet that you can use to see if you have to make estimated tax payments.

Sign Your Return

Form 1040 is not considered a return unless you sign it. Your spouse must also sign if it is a joint return. If you are filing a joint return with your deceased spouse, see **Death of Taxpayer** on page 19.

Did You Have Someone Else Prepare Your Return? If you fill in your own return, the Paid Preparer's space should remain blank. Someone who prepares your return but **does not charge you, should not sign.**

Generally, anyone who is paid to prepare your tax return must sign your return and fill in the other blanks in the Paid Preparer's Use Only area of your return.

If you have questions about whether a preparer is required to sign your return, please contact an IRS office.

The preparer required to sign your return ***MUST:***

- *Sign it, by hand, in the space provided for the preparer's signature. (Signature stamps or labels are not acceptable.)*
- *Give you a copy of your return in addition to the copy to be filed with IRS.*

Tax return preparers should be familiar with their responsibilities. They should get **Publication 1045,** Information and Order Blanks for Preparers of Federal Income Tax Returns, for more details.

Section 4

General Information

This section contains general information about items such as amending your tax return, how long to keep tax records, and filing a return for a deceased person.

Penalties and Interest

Interest. We will charge you interest on taxes not paid by their due date, even if an extension of time to file is granted. We will also charge you interest on penalties imposed for failure to file, gross valuation overstatements, and substantial understatements of tax. Interest is imposed on the penalty as of the due date of the return (including extensions) to the date of payment.

Late Filing of Return. You can avoid penalties for late filing by sending in your return by the due date. The law provides a penalty of 5% of the tax due for each month, or part of a month, the return is late (maximum 25%) unless you can show reasonable cause for the delay. If you file a return late, attach a full explanation to your return. If your return is more than 60 days late, the penalty will not be less than $100 or 100% of the balance of tax due on your return, whichever is less.

Late Payment of Tax. The penalty for not paying tax when due is ½ of 1% of the unpaid amount for each month or part of a month it remains unpaid. The maximum penalty is 25%. The penalty applies to any unpaid tax shown on the return. It also applies to any additional tax shown on a bill that is not paid within 10 days after the date of the bill. This penalty is in addition to interest charges on late payments.

Note: *If you include interest or either of these penalties with your payment, identify and enter these amounts in the bottom margin of Form 1040, page 2. Do not include the interest or penalty amounts in* ***Amount You Owe*** *on line 68.*

Other Penalties. There are also other penalties that can be imposed for negligence, substantial understatement of tax, filing a frivolous return, and fraud. Get **Publication 17** for details on some of these penalties.

Penalty for frivolous return.—In addition to any other penalties, the law imposes a penalty of $500 for filing a frivolous return. A frivolous return is one which does not contain information needed to figure the correct tax or shows a substantially incorrect tax, because you take a frivolous position or desire to delay or interfere with the tax laws. This includes any alteration or striking out of the preprinted language above the space provided for your signature.

Voluntary Contributions To Reduce the Public Debt

If you wish to make a contribution to reduce the public debt, enclose a separate check with your income tax return and make it payable to "Bureau of the Public Debt." You may be able to deduct this contribution on your 1986 tax return. Please do not add it to any tax you may owe. If you owe tax, include a separate check for that amount payable to "Internal Revenue Service."

Address Change

If you move after you file your return and you are expecting a refund, you should notify the post office serving your old address. Also notify the IRS Service Center where you filed your return of your address change. This will help to forward your check to your new address as soon as possible.

Corresponding With IRS

Be sure to include your social security number in any correspondence with IRS.

How Long Should Records Be Kept?

Keep records of income, deductions, and credits shown on your return, as well as any worksheets used to figure them, until the statute of limitations runs out for that return. Usually this is 3 years from the date the return was due or filed, or 2 years from the date the tax was paid, whichever is later. Also keep copies of your filed tax returns as part of your records. You should keep some records longer. For example, keep property records (including those on your own home) as long as they are needed to figure the basis of the original or replacement property. For more details, get **Publication 552,** Recordkeeping for Individuals and a List of Tax Publications.

Where To File

Use the addressed envelope that came with your return. If you do not have one, or if you moved during the year, mail your return to the **Internal Revenue Service Center** for the place where you live. No street address is needed.

If you are located in: ▼	Use this address: ▼
Alabama, Florida, Georgia, Mississippi, South Carolina	Atlanta, GA 31101
New Jersey, New York City and counties of Nassau, Rockland, Suffolk, and Westchester	Holtsville, NY 00501
Illinois, Iowa, Missouri, Wisconsin	Kansas City, MO 64999
Delaware, District of Columbia, Maryland, Pennsylvania	Philadelphia, PA 19255
Connecticut, Maine, Massachusetts, Minnesota, New Hampshire, New York (all other counties), Rhode Island, Vermont	Andover, MA 05501
Kentucky, Michigan, Ohio, West Virginia	Cincinnati, OH 45999
Kansas, Louisiana, New Mexico, Oklahoma, Texas	Austin, TX 73301
Alaska, Arizona, California (counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo, and Yuba), Colorado, Idaho, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	Ogden, UT 84201
California (all other counties), Hawaii	Fresno, CA 93888
Arkansas, Indiana, North Carolina, Tennessee, Virginia	Memphis, TN 37501
American Samoa	Philadelphia, PA 19255
Guam	Commissioner of Revenue and Taxation Agana, GU 96910
Puerto Rico (or if excluding income under section 933) Virgin Islands: Nonpermanent residents	Philadelphia, PA 19255
Virgin Islands: Permanent residents	V. I. Bureau of Internal Revenue P.O. Box 3186 St. Thomas, VI 00801
Foreign country: U.S. citizens and those filing Form 2555 or Form 4563, even if you have an A.P.O. or F.P.O. address	Philadelphia, PA 19255
A.P.O. or F.P.O. address of:	Miami—Atlanta, GA 31101 New York—Holtsville, NY 00501 San Francisco—Fresno, CA 93888 Seattle—Ogden, UT 84201

Requesting a Copy of Your Tax Return. If you need a copy of your tax return or tax account information, use **Form 4506,** Request for Copy of Tax Form or Income Tax Account Information. The charge for a copy of a return is $4.25. The charge for tax account information is $2.25.

Substitute Tax Forms

You may not use your own version of a tax form unless it meets the requirements contained in **Publication 1167** for acceptable privately designed and printed substitute tax forms. You can get Publication 1167 by writing to:

Forms Distribution Center
P.O. Box 25866
Richmond, VA 23260.

Amended Return

If you file your income tax return and later become aware of any changes you must make to income, deductions, or credits, file **Form 1040X,** Amended U.S. Individual Income Tax Return, to change the Form 1040, 1040A, or 1040EZ you already filed. ***Note:*** *If your Federal return is changed for any reason, it may affect your state income tax liability. This would include changes made as a result of an examination of your return by the IRS. Contact your state tax agency for more information.*

Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE)

Free help is available in most communities to lower income, elderly, handicapped, and non-English speaking individuals in preparing Form 1040EZ, Form 1040A, and the basic Form 1040. Call the toll-free telephone number for your area for the location of the volunteer assistance site near you.

Death of Taxpayer

If the taxpayer died before filing a return for 1985, the taxpayer's spouse or personal representative must file and sign a return for the person who died if the deceased was required to file a return. A personal representative can be an executor, administrator, or anyone who is in charge of the taxpayer's property.

The person who files the return should write "deceased" after the deceased's name and show the date of death in the name and address space at the top of the return. Also write **"DECEASED"** across the top of the tax return.

If the taxpayer did not have to file a return but had tax withheld, a return must be filed to get a refund.

If your spouse died in 1985 and you did not remarry in 1985, you can file a joint return. You can also file a joint return if your spouse died in 1986 before filing a 1985 return. A joint return should show your spouse's 1985 income before death and your income for all of 1985. Also write "Filing as surviving spouse" in the area where you sign the return. If someone else is the personal representative, he or she must also sign.

If you are claiming a refund as a surviving spouse filing a joint return with the deceased and you follow the above instructions, no other form is needed to have the refund issued to you. However, all other filers requesting a refund due the deceased must file **Form 1310,** Statement of Person Claiming Refund Due a Deceased Taxpayer, to claim the refund.

For more details, see **Tele-Tax Information** in the index (topic no. 128) or get **Publication 559,** Tax Information for Survivors, Executors, and Administrators.

Unresolved Tax Problems

IRS has a Problem Resolution Program for taxpayers who have been unable to resolve their problems with IRS. If you have a tax problem you have been unable to resolve through normal channels, write to your local IRS District Director or call your local IRS office and ask for Problem Resolution assistance.

The Problem Resolution Office will take responsibility for your problem and ensure that it receives proper attention. Although this office cannot change the tax law or technical decisions, it can frequently clear up misunderstandings that resulted from previous contacts.

Section 5

Instructions for Schedules to Form 1040

Instructions for Schedule A Itemized Deductions

Changes You Should Note

The following changes apply to tax years beginning in 1985.

Medical and Dental Expenses. Even if you do not claim your child as a dependent because of the rules explained on page 7 for **Children of Divorced or Separated Parents,** you may still deduct the medical and dental expenses you paid for your child.

Charitable Contributions. If your total deduction for gifts of property is over $500, you must complete and attach **Form 8283,** Noncash Charitable Contributions (Rev. Oct. 1985). Also, the standard mileage rate for use of a car in performing services for a charitable organization has increased to 12 cents a mile.

Purpose of Schedule

Some taxpayers must itemize their deductions and some should itemize because they will save money. See **You MUST Itemize Deductions** and **You Choose To Itemize** on pages 13 and 14.

If you itemize, you can deduct part of your medical and dental expenses, and amounts you paid for certain taxes, interest, contributions, casualty and theft losses, and other miscellaneous expenses. These are explained below.

Lines 1 through 5

Medical and Dental Expenses

Before you can figure your total deduction for medical and dental expenses, you must complete Form 1040 through line 33.

You may deduct only that part of your medical and dental expenses that is more than 5% of your adjusted gross income on Form 1040, line 33.

You should include all amounts you paid during 1985 (including amounts you paid for hospital, medical, and extra Medicare (Medicare B) insurance), but **do not** include amounts repaid to you, or paid to anyone else, by hospital, health or accident insurance, or your employer. Get **Publication 502** for information on insurance reimbursements. If you received a reimbursement of prior-year medical or dental expenses in 1985, see the instructions for Form 1040, line 22. **Do not** reduce your 1985 expenses by this amount.

When you figure your deduction, you may include medical and dental bills you paid for:

- Yourself.
- Your spouse.
- All dependents you claim on your return.
- Your child whom you do not claim as a dependent because of the rules explained on page 7 for **Children of Divorced or Separated Parents.**
- Any person that you could have claimed as a dependent on your return if that person had not received $1,040 or more of gross income or had not filed a joint return.

Example.—You provided more than half of your mother's support but may not claim her as a dependent because she received $1,040 of wages during 1985. If part of your support was the payment of her medical bills, you may include that part in your medical expenses.

Note: *On line 2c list the medical expense and the amount of the expense. Enter one total in the total amount column on line 2c.*

Examples of Medical and Dental Payments You MAY Deduct

To the extent you were not reimbursed, you may deduct what you paid for:

- Medicines and drugs that required a prescription, or insulin.
- Medical doctors, dentists, eye doctors, chiropractors, osteopaths, podiatrists, psychiatrists, psychologists, physical therapists, acupuncturists, and psychoanalysts (medical care only).
- Medical examinations, X-ray and laboratory services, insulin treatment, and whirlpool baths your doctor ordered.
- Nursing help. If you pay someone to do both nursing and housework, you may deduct only the cost of the nursing help.
- Hospital care (including meals and lodging), clinic costs, and lab fees.
- Medical treatment at a center for drug addicts or alcoholics.
- Medical aids such as hearing aids (and batteries), false teeth, eyeglasses, contact lenses, braces, crutches, wheelchairs, guide dogs and the cost of maintaining them.
- Lodging expenses (but not meals) paid while away from home to receive medical care in a hospital or a medical care facility that is related to a hospital. Do not include more than $50 a night for each eligible person.
- Ambulance service and other travel costs to get medical care. If you used your own car, you may claim what you spent for gas and oil to go to and from the place you received the care; or you may claim 9 cents a mile. Add parking and tolls to the amount you claim under either method.

Examples of Medical and Dental Payments You MAY NOT Deduct

You may not deduct the following:

- The basic cost of Medicare insurance (Medicare A).

***Note:** If you are 65 or over and not entitled to social security benefits, you may deduct premiums you voluntarily paid for Medicare A coverage.*

- Life insurance or income protection policies.
- The 1.35% hospital insurance benefits tax withheld from your pay as part of the social security tax or paid as part of social security self-employment tax.
- Nursing care for a healthy baby. (You may qualify for the child and dependent care credit; get **Form 2441.**)
- Illegal operations or drugs.
- Medicines or drugs you bought without a prescription.
- Travel your doctor told you to take for rest or change.
- Funeral, burial, or cremation costs.

Publication 502 has a discussion of expenses that may and may not be deducted. It also explains when you may deduct capital expenditures and special care for handicapped persons.

Lines 6 through 10

Taxes You Paid

Taxes You MAY Deduct

- **State and local income taxes (line 6).** Include on this line state and local income taxes that were withheld from your salary and any estimated payments made. Also include payments you made in 1985 on a tax for a prior year. **Do not** reduce your deduction by either of the following amounts:

a. any state and local income tax refund (or credit) you expect to receive for 1985, or

b. any refund of (or credit for) prior-year state and local income taxes you actually received in 1985 (see the instructions for Form 1040, line 10).

- **Real estate taxes (line 7).** Include taxes that you paid on property you own that was not used for business. **Publication 530,** Tax Information for Owners of Homes, Condominiums, and Cooperative Apartments, explains the deductions homeowners may take.

If your mortgage payments include your real estate taxes, do not take a deduction for those taxes until the year the mortgage company actually pays them to the taxing authority.

- **General sales taxes (line 8).** The Sales Tax Tables (see index) show how much you may deduct for your income and family size if you did not keep detailed records. You may add to the sales tax table amount the general sales tax you paid if you bought:
- A car, motorcycle, motor home, or truck. (**Note:** Texas charges a higher motor vehicle sales or use tax than it does for other items. Figure how much you would have paid at the general sales tax rate and enter only that amount on line 8b.)
- A boat, plane, home (including mobile or prefabricated), or materials to build a new home if:

a. the tax rate was the same as the general sales tax rate, and

b. your sales receipt or contract shows how much tax was imposed on you and paid by you.

If you kept records that show you paid more state sales tax than the tables list, you may deduct the larger amount on line 8a. Separately show the sales tax you paid on any motor vehicle you bought in 1985 on line 8b. Include state or local selective sales or excise taxes if the rates were the same as the general sales tax rates.

If you use the Sales Tax Tables, count all available income. Follow the steps at the top of the first page of the tables to figure your available income and your deduction, especially if your total available income is more than $40,000.

- **Personal property taxes and other taxes (line 9).** If you had any deductible tax not listed on Schedule A, lines 6 through 8b (such as personal property or foreign income tax), list the tax and the amount of tax. Enter one total in the total amount column on line 9.

Personal property tax must be based on value alone. For example, if part of the fee you paid for the registration of your car was based on the car's value and part was based on its weight, you may deduct only the part based on value.

If you paid tax to a foreign country or U.S. possession, you may want to take it as a credit instead of a deduction. Please get **Publication 514,** Foreign Tax Credit for U.S. Citizens and Resident Aliens.

Taxes You MAY NOT Deduct

- Federal income tax.
- Social security tax.
- Railroad retirement tax (RRTA).
- Federal excise tax on transportation, telephone, gasoline, etc.
- Customs duties.
- Federal estate and gift taxes. (However, see **Miscellaneous Deductions** on page 21.)
- Windfall profit tax. (Use Schedules C or E of Form 1040 to deduct this tax.)
- Certain state and local taxes, including:

a. Tax on gasoline.

b. Car inspection fees.

c. Tax on liquor, beer, wine, cigarettes, and tobacco.

d. Assessments for sidewalks or other improvements to your property.

e. Taxes paid for your business or profession. (Use Schedules C, E, or F of Form 1040 to deduct business taxes.)

f. Tax you paid for someone else.

g. License fees (marriage, driver's, dog, hunting, etc.).

h. Per capita (head) tax.

Lines 11a through 14

Interest You Paid

Include interest you paid on nonbusiness items only.

In general, a cash basis taxpayer who in 1985 paid interest that includes amounts that apply to any period after 1985 may deduct only the amount that applies for 1985.

***Note:** If, at the end of your tax year, you have a loan in existence whose term is in excess of 5 years and the loan agreement in any way refers to the "Rule of 78's," get **Publication 545,** Interest Expense, for information on how to figure the amount of interest you may deduct on the loan.*

Interest You MAY Deduct

- **Home mortgage interest (lines 11a and 11b).** Beginning in 1985, if you paid $600 or more of interest on your home mortgage, the recipient of this interest will generally send you a **Form 1098,** Mortgage Interest Statement, or similar statement, showing the total interest received during 1985. You should receive this statement by January 31, 1986. However, if you paid "points" (including loan origination fees), they will not be shown on this statement. Get Publication 545 to see if the points qualify as interest. If they do, report them on line 13. **Do not** include them on line 11a.

a. Line 11a. Report mortgage interest you paid directly, or indirectly, to financial institutions on line 11a. If you and at least one other person (other than your spouse if you file a joint return) were liable for, and paid interest on, the mortgage, and the other person received the Form 1098, or similar statement, attach a statement to your return showing the name and address of the person who received the form. In the far left margin, next to line 11a, write "see attached."

***Note:** If you are claiming the Mortgage Interest Credit (see instructions for Form 1040, line 45), subtract the amount shown on line 3 of **Form 8396** from the total interest you paid on your home mortgage and enter the result on line 11a.*

b. Line 11b. Report mortgage interest you paid to individuals on line 11b. Also list this person's name and address in the space provided.

- **Credit card and charge account interest you paid (line 12).** Include on this line interest you paid on bank and other general purpose credit cards. Deduct the finance charge paid as interest if no part of it was for service charges, membership fees, loan fees, credit investigation fees, etc. Also include interest you paid on revolving charge accounts. Deduct any finance charge a retail store added if the charges are based on your monthly unpaid balance.
- **Other interest you paid (line 13).** List each interest expense and the amount. Enter one total in the total amount column on line 13. Include on this line interest you paid on—

a. Your personal note for money you borrowed from a bank, a credit union, or another person.

b. Loans on life insurance if you paid the interest in cash and you report on the cash basis.

c. Installment contracts on personal property, such as cars.

d. Taxes you paid late. Show only the interest; do not include any amount that is considered a penalty. If the tax is deductible, show it under **Taxes You Paid** (lines 6 through 9 of this schedule).

e. Loans on investment property. Report only the nonbusiness part of interest on these loans. (If your total investment interest on investment debts created after 1969 is more than $10,000 ($5,000 if married filing a separate return), you may have to complete **Form 4952**, Investment Interest Expense Deduction, to figure your correct deduction. Also get **Publication 550**, Investment Income and Expenses.)

***Note:** Special rules apply to interest expense imputed on below-market loans. Get Publication 545.*

Interest You MAY NOT Deduct

Do not include interest paid on your debts by others, such as mortgage interest subsidy payments made by a government agency. Also do not include the interest you paid for—

- Tax-exempt income. This includes interest on money you borrowed to buy or carry wholly tax-exempt securities. This also includes interest paid to purchase or carry obligations or shares, or to make deposits or other investments, to the extent any interest income received from the investment is tax-exempt.
- A loan on life insurance if the interest is added to the loan and you report on the cash basis.
- A debt to buy a single-premium life insurance or endowment contract.
- Any kind of business transaction. (Use Schedules C, E, or F of Form 1040 to deduct business interest expenses.)

Get Publication 545 for more details.

Lines 15a through 18

Contributions You Made

You may deduct what you actually gave to organizations that are religious, charitable, educational, scientific, or literary in purpose. You may also deduct what you gave to organizations that work to prevent cruelty to children or animals.

Examples of these organizations are:

- Churches, temples, synagogues, Salvation Army, Red Cross, CARE, Goodwill Industries, United Way, Boy Scouts, Girl Scouts, Boys Club of America, etc.
- Fraternal orders, if the gifts will be used for the purposes listed above.
- Veterans' and certain cultural groups.
- Nonprofit schools, hospitals, and organizations whose purpose is to find a cure for, or help people who have arthritis, asthma, birth defects, cancer, cerebral palsy, cystic fibrosis, diabetes, heart disease, hemophilia, mental illness or retardation, multiple sclerosis, muscular dystrophy, tuberculosis, etc.
- Federal, state, and local governments if the gifts are solely for public purposes.

If you contributed to a charitable organization and also received a benefit from it, you may deduct only the amount that is more than the value of the benefit you received.

If you do not know whether you may deduct what you gave to an organization, check with that organization or with IRS.

Contributions You MAY Deduct

Contributions may be in cash (keep cancelled checks, receipts, or other reliable written records showing the name of the organization and the date and amount given), property, or out-of-pocket expenses you paid to do volunteer work for the kinds of organizations described above. If you drove to and from the volunteer work, you may take 12 cents a mile or the actual cost of gas and oil. Add parking and tolls to the amount you claim under either method. (But don't deduct any amounts that were repaid to you.)

Line 15a. Enter on line 15a all of your cash contributions (including out-of-pocket expenses) **except** those that total $3,000 or more to any one organization.

Line 15b. Enter on line 15b cash contributions totaling $3,000 or more to any one organization. Show to whom and how much you gave in the space provided.

Line 16. Enter on line 16 your contributions of property. If you gave used items, such as clothing or furniture, deduct their fair market value at the time you gave them. Fair market value is what a willing buyer would pay a willing seller when neither has to buy or sell and both are aware of the conditions of the sale. If your total deduction for gifts of property is more than $500, you must complete and attach **Form 8283**, Noncash Charitable Contributions (Rev. Oct. 1985). If your total deduction is over $5,000, you may also have to get appraisals of the values of the donated property. See Form 8283 and its instructions for details.

Recordkeeping. Beginning in 1985, if you gave property, you should keep a receipt or written statement from the organization you gave the property to, or a reliable written record, that shows the organization's name and address, the date and location of the gift, and a description of the property. You should also keep reliable written records for each gift of property that include the following information:

a. How you figured the property's value at the time you gave it. (If the value was determined by an appraisal, you should also keep a signed copy of the appraisal.)

b. The cost or other basis of the property if you must reduce it by any ordinary income or capital gain that would have resulted if the property had been sold at its fair market value.

c. How you figured your deduction if you chose to reduce your deduction for gifts of capital gain property.

d. Any conditions attached to the gift.

e. If the gift was a "qualified conservation contribution" under section 170(h), the fair market value of the underlying property before and after the gift, the type of legal interest donated, and the conservation purpose furthered by the gift.

***Note:** If your total deduction for gifts of property is over $500 or if you gave less than your entire interest in the property, your records should contain additional information. See **Publication 526**, Charitable Contributions, for details.*

See Publication 526 for special rules that apply if:

- Your cash contributions or contributions of ordinary income property are more than 30% of Form 1040, line 33,
- Your gifts of capital gain property to certain organizations are more than 20% of Form 1040, line 33, or
- You gave gifts of property that increased in value, made bargain sales to charity, or gave gifts of the use of property.

You MAY NOT Deduct As Contributions

- Political contributions (but see instructions for Form 1040, line 44).
- Dues, fees, or bills paid to country clubs, lodges, fraternal orders, or similar groups.
- Cost of raffle, bingo, or lottery tickets.
- Cost of tuition.
- The value of your time or services.
- Value of blood given to a blood bank.
- The transfer of a future interest in tangible personal property (generally, until the entire interest has been transferred).
- Gifts to:

a. Individuals.

b. Foreign organizations.

c. Groups that are run for personal profit.

d. Groups whose purpose is to lobby for changes in the laws.

e. Civic leagues, social and sports clubs, labor unions, and chambers of commerce.

Line 19

Casualty and Theft Losses

Use line 19 to report casualty or theft losses of property that is not trade, business, or rent or royalty property. Complete and attach **Form 4684**, Casualties and Thefts, or a similar statement to figure your loss. Enter on line 19 of Schedule A the amount of loss from Form 4684.

Losses You MAY Deduct

You may be able to deduct all or part of each loss caused by theft, vandalism, fire, storm, and car, boat, and other accidents or similar causes.

You may deduct nonbusiness casualty or theft losses only to the extent that—

a. The amount of **EACH** separate casualty or theft loss is more than $100, and

b. The total amount of **ALL** losses during the year is more than 10% of your adjusted gross income on Form 1040, line 33.

Special rules apply if you had both gains and losses from nonbusiness casualties or thefts. See Form 4684 for details.

Losses You MAY NOT Deduct

- Money or property misplaced or lost.
- Breakage of china, glassware, furniture, and similar items under normal conditions.
- Progressive damage to property (buildings, clothes, trees, etc.) caused by termites, moths, other insects, or disease.

Use line 22 of Schedule A to deduct the costs of proving that you had a property loss. (Examples of these costs are appraisal fees and photographs used to establish the amount of your loss.)

For more details, get **Publication 547**, Nonbusiness Disasters, Casualties, and Thefts. It also gives information about Federal disaster area losses.

Lines 20 through 23

Miscellaneous Deductions

Expenses You MAY Deduct

Business Use of Home. You may not deduct expenses for business use of part of your home unless you use that part exclusively and on a regular basis in your work and for the convenience of your employer.

See **Tele-Tax Information** in the index (topic no. 237) or **Publication 587**, Business Use of Your Home, for details.

Educational Expenses. Generally, you may deduct what you paid for education required by your employer, or by law or regulations, to keep your present salary or job. In general, you may also deduct the cost of maintaining or improving skills you must have in your present position.

You may not deduct some educational expenses. Among them are expenses for study that helps you meet minimum requirements for your job, or qualifies you to get a new job.

For more details, see **Tele-Tax Information** in the index (topic no. 238) or **Publication 508,** Educational Expenses.

Employee Expenses. Examples of the expenses you may deduct are:

- Safety equipment, small tools, and supplies you needed for your job.
- Uniforms your employer said you must have, and which you may not usually wear away from work.
- Protective clothing, required in your work, such as hard hats and safety shoes and glasses.
- Physical examinations your employer said you must have.
- Dues to professional organizations and chambers of commerce.
- Subscriptions to professional journals.
- Fees to employment agencies and other costs to look for a new job in your present occupation, even if you do not get a new job.

Note: *If your employer reimbursed you directly or indirectly for any educational expenses or employee expenses, you must use* ***Form 2106,*** *Employee Business Expenses, Part I, line 5, to deduct those expenses up to the amount you were reimbursed. Also use Form 2106 to deduct any related travel or transportation expenses.*

Expenses of Producing Income. You may deduct what you paid to produce or collect taxable income or to manage or protect property held for producing income.

Examples of these expenses are:

- Safe deposit box rental.
- Certain legal and accounting fees.
- Clerical help and office rent.
- Custodial (e.g., trust account) fees.

Qualified Adoption Expenses. You may be able to deduct up to $1,500 of **qualified adoption expenses** you paid for each child you adopt with "special needs."

A child with special needs is a child (for purposes of the Social Security Act adoption assistance program) whom the state determines cannot or should not be returned to his or her parental home, who has a specific factor or condition that makes placement difficult, and who has been the subject of an unsuccessful placement effort.

Gambling Losses. You may deduct gambling losses, but not more than the gambling winnings you reported on Form 1040, line 22.

Income in Respect of a Decedent. You may deduct the Federal estate tax attributable to income in respect of a decedent that is ordinary income.

Miscellaneous Expenses You MAY NOT Deduct

- Political contributions (but see instructions for Form 1040, line 44).
- Personal legal expenses.
- Lost or misplaced cash or property.
- Expenses for meals during regular or extra work hours.
- The cost of entertaining friends.
- Expenses of going to or from work.
- Education that you need to meet minimum requirements for your job or that will qualify you for a new occupation.
- Fines and penalties.
- Expenses of producing tax-exempt income.

For more details on miscellaneous expenses, get **Publication 529,** Miscellaneous Deductions.

Note: *On line 22 list the type and amount of each expense. Enter one total in the total amount column on line 22.*

Line 26

Excess Itemized Deductions

If line 24 is more than line 25, subtract line 25 from line 24 and enter the difference on Schedule A, line 26, and on Form 1040, line 34a.

Note: *You will receive the full benefit of your itemized deductions because the zero bracket amount you entered for your filing status on line 25 has been built into the Tax Table and Tax Rate Schedules for you.*

If line 25 is more than line 24, and you are required to itemize your deductions, write "TC" on Schedule A, line 26, and see the instructions for line 34a on page 13 for **You MUST Itemize Deductions.**

Instructions for Schedule B Interest and Dividend Income

Purpose of Schedule

Use Schedule B if you are filing Form 1040 and you:

- Had more than $400 in interest,
- Had more than $400 in dividends,
- Elect to exclude qualified reinvested dividends from a qualified public utility,
- Had a foreign account, or
- Were a grantor of, or transferor to, a foreign trust.

Part III of the schedule asks you to answer questions about foreign accounts and trusts.

Part I

Interest Income

To see what interest income you must report, read the instructions for Form 1040, line 8, on page 8.

The payer should send you a **Form 1099-INT** or **Form 1099-OID,** if applicable, showing interest you must report. If the total interest from all payers is over $400, fill in Part I and Part III of this schedule.

Line 1

Report on line 1 the interest portion of any payments you received from an individual based on a take-back mortgage or other form of seller financing that resulted from the sale of your home or other property. Show the payer's name and the amount.

Line 2

Report on line 2 **ALL** interest (other than seller-financed mortgage interest) that you received or that was credited to your account so you could withdraw it. List each payer's name and show the amount.

Nominees. Include on line 2 interest you received as a nominee for the actual owner. Several lines above line 3, put a subtotal of all interest income listed on line 2. Below this subtotal, write "Nominee Distribution" and show the interest amounts you received as a nominee. Subtract these amounts from the subtotal and write the result on line 3.

Note: *If you received interest as a nominee for the actual owner, give that person a* ***Form 1099-INT.***

Accrued Interest. When you buy bonds between interest payment dates and pay accrued interest to the seller, this interest is taxable to the seller. If you received a Form 1099 for interest as a purchaser of a bond with accrued interest, follow the rules above under **Nominees** to see how to report the accrued interest on Schedule B. But identify the amount to be subtracted as "Accrued Interest."

Tax-Exempt Interest. If you received a **Form 1099-INT** for tax-exempt interest, such as from municipal bonds, follow the rules above under **Nominees** to see how to treat this interest on Schedule B. But identify the amount to be subtracted as "Tax-Exempt Interest."

Original Issue Discount (OID). If you are reporting OID in an amount less than the amount shown on **Form 1099-OID,** follow the rules above under **Nominees** or **Accrued Interest,** whichever applies, to see how to report the OID on Schedule B. But identify the amount to be subtracted as "OID Adjustment."

Line 3

Add up all the interest listed on lines 1 and 2 except as noted above under **Nominees, Accrued Interest, Tax-Exempt Interest,** and **Original Issue Discount.** Write the total on this line and also on Form 1040, line 8.

Part II

Dividend Income

To see what dividend income you must report, read the instructions for Form 1040, line 9a, on page 8.

Tax Tip: *Be sure to read the instructions on page 9 for line 9b to see if you can exclude any part of your dividend income.*

The payer should send you a **Form 1099-DIV** showing dividends you must report. If the total dividends from all payers are over $400, or you elect to exclude qualified reinvested dividends from a qualified public utility, fill in Part II. If the total is over $400, also fill in Part III.

Line 4

Report on line 4 **ALL** of your dividend income. Be sure to include capital gain and nontaxable distributions on this line. They will be deducted on lines 6 and 7. Include cash and the value of stock, property, or merchandise you received as a dividend. If you owned shares in a mutual fund, **Publication 564,** Mutual Fund Distributions, may be helpful.

List the payer's name and show the amount of income. If the securities are held in a brokerage account, list the name of the brokerage firm as the payer.

Nominees. Include on line 4 all dividends you received, including dividends you received as a nominee, even if you later distributed some or all of this income to others. Several lines above line 5, put a subtotal of all dividends listed on line 4. Below this subtotal write "Nominee Distribution" and show the amounts you received as a nominee. Subtract these amounts from the subtotal and write the result on line 5.

Note: *If you received dividends as a nominee for the actual owner, give that person a* ***Form 1099-DIV.***

Line 5

Add the amounts you listed on line 4 except as noted above under **Nominees.** Write the total on this line.

Line 8

If you choose under a dividend reinvestment plan of a qualified public utility to receive dividends in "qualified common stock" rather than in cash or other property, you may elect to exclude up to $750 ($1,500 on a joint return) of the qualified common stock dividends distributed to you in 1985. This exclusion does not apply to nonresident aliens, or persons owning more than 5% of the voting power or value of stock in the distributing corporation. For more details, get **Publication 550.**

Caution: *If you choose to exclude the value of the qualified common stock dividend, you* ***may not*** *revoke the election for that dividend without the consent of IRS.*

On line 8 write the amount you are excluding in 1985. On line 4 write "DR" next to the payer's name to identify the dividend you are excluding from income.

Note: *If you exclude the value of stock received in a reinvestment plan of a qualified public utility, your basis in the stock is zero.*

Part III

Foreign Accounts and Foreign Trusts

Fill in this part if you had more than $400 of interest or dividend income; if you had a foreign financial account; or if you were the grantor of, or transferor to, a foreign trust.

Line 11

Check the **Yes** box if either 1 or 2 below applies to you.

1. At any time during the year you had an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account). Exception: Check **No** if any of the following applies to you.

- The combined value of the accounts was $5,000 or less during the whole year.
- The accounts were with a U.S. military banking facility operated by a U.S. financial institution.
- You are an officer or employee of a commercial bank that is supervised by the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, or the Federal Deposit Insurance Corporation; the account is in your employer's name; **AND** you do not have a personal financial interest in the account.
- You are an officer or employee of a domestic corporation with securities listed on national securities exchanges or with assets of more than $1 million and 500 or more shareholders of record; the account is in your employer's name; you do not have a personal financial interest in the account; and the corporation's chief financial officer has given you written notice that the corporation has filed a current report that includes the account.

2. You own more than 50% of the stock in any corporation that owns one or more foreign bank accounts.

Get **Form TD F 90-22.1** to see if you are considered to have an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account).

If you checked **Yes** to question 11, file Form TD F 90-22.1 by June 30, 1986, with the Department of the Treasury at the address shown on the form. Form TD F 90-22.1 is not a tax return, so **do not** attach it to Form 1040 or file it with the IRS. But be sure to **file your Form 1040 with the IRS.**

You can get Form TD F 90-22.1 from many IRS offices or by writing to the IRS Forms Distribution Center for your state, as shown on the inside back cover.

If you checked **Yes** to question 11, write the name of the foreign country or countries in the space provided. Attach a separate sheet if you need more space.

Instructions for Schedule D

Capital Gains and Losses and Reconciliation of Forms 1099-B

Changes You Should Note

A new Part I, Summary of Forms 1099-B for Sales of Stocks, Bonds, Etc., has been added. You should complete line 1a of Part I and also Part VII of Schedule D if you received one or more **Forms 1099-B** or equivalent statements, such as a broker's confirmation, for 1985.

Purpose of Schedule

Use Schedule D (Form 1040) to report a sale or exchange of a capital asset and to reconcile Forms 1099-B to your tax return. See the **Capital Asset** section for the definition of capital assets. Schedule D is also used to report gains from involuntary conversions of capital assets that are not held in connection with a trade or business or a transaction entered into for profit.

Use **Form 4797,** Gains and Losses From Sales or Exchanges of Assets Used in a Trade or Business and Involuntary Conversions, instead of Schedule D to report the following:

- The sale or exchange of trade or business property, depreciable and amortizable property, oil, gas, and geothermal property, and section 126 property.
- The involuntary conversion (other than by casualty or theft) of trade or business property and capital assets held in connection with a trade or business or a transaction entered into for profit.
- Disposition of other noncapital assets not mentioned above.

Use **Form 4684,** Casualties and Thefts, to report involuntary conversions of property due to casualty or theft.

Get **Publication 544,** Sales and Other Dispositions of Assets, and **Publication 550,** Investment Income and Expenses, for more information.

Capital Asset

Most property you own and use for personal purposes, pleasure, or investment is a capital asset. For example, your house, furniture, car, and stocks and bonds are capital assets.

A capital asset is any property held by a taxpayer except the following:

a. Stock in trade or other property included in inventory or held for sale to customers.

b. Accounts or notes receivable you received for services in the ordinary course of your trade or business, or from the sale of any property described in **a**, or for services you performed as an employee.

c. Depreciable property used in your trade or business even if it was fully depreciated.

d. Real property (real estate) used in your trade or business.

e. A copyright, a literary, musical, or artistic composition, a letter or memorandum, or similar property:

1. created by your personal efforts; or

2. prepared or produced for you (in the case of a letter, memorandum, or similar property); or

3. that you received from a taxpayer mentioned in **1** or **2**, in a way (such as by gift) that entitled you to the basis of the previous owner.

f. U.S. Government publications (including the Congressional Record) that you received from the government, other than by purchase at the normal sales price, or that you got from another taxpayer who had received it in a similar way, if your basis is determined by reference to the previous owner.

Short-Term or Long-Term

Separate your capital gains and losses according to how long you held or owned the property. The holding period for long-term capital gains and losses is more than 6 months for acquisitions after 6/22/84 (more than 1 year if acquired before 6/23/84).

To figure the holding period, begin counting on the day after you received the property and include the day you disposed of it. Use the trade dates for date acquired and date sold for stocks and bonds on an exchange or over the counter market.

A nonbusiness bad debt must be treated as a short-term capital loss.

Capital Losses

The capital loss that can be applied against other income after offsetting capital gains is limited to $3,000 ($1,500 if married filing a separate return).

Unused capital losses are carried over to later years to the extent allowed until fully used. If any of your capital losses are from before 1970, use **Form 4798,** Carryover of Pre-1970 Capital Losses, Part II, to figure your capital loss carryovers. If all of your capital losses were after 1969, use Schedule D, Part V to figure your capital loss carryovers.

Losses That Are Not Deductible

Do not deduct a loss from the sale or exchange of property, directly or indirectly, between any of the following:

- Members of a family.
- A corporation and an individual or a fiduciary owning more than 50 percent of the corporation's stock (not counting liquidations).
- A grantor and a fiduciary of a trust.
- A fiduciary and a beneficiary of the same trust.
- A fiduciary and a fiduciary or beneficiary of another trust created by the same grantor.
- An individual and a tax-exempt organization controlled by the individual or the individual's family.
- A partnership and a corporation if the same taxpayers own directly or indirectly more than 50 percent of the capital interest, or profits interest, in the partnership or corporation.

If you dispose of (1) an asset used in an activity to which the at-risk rules apply, or (2) any part of your interest in an activity to which the at-risk rules apply, and you have amounts in the activity for which you are not at risk, see the instructions for **Form 6198,** Computation of Deductible Loss From an Activity Described in Section 465(c).

Items for Special Treatment and Special Cases

The following items may require special treatment:

- Transactions by a securities dealer.
- Wash sales of stock or securities.
- Bonds and other evidence of indebtedness.
- Certain real estate subdivided for sale which may be considered a capital asset.
- Distributions received from an employee pension, profit-sharing, or stock bonus plan. (See **Form 4972,** Special 10-Year Averaging Method, or **Form 5544,** Multiple Recipient Special 10-Year Averaging Method. Also, see **Publication 575,** Pension and Annuity Income.)
- Gain on the sale of depreciable property to an 80% owned entity, or to a trust of which you are a beneficiary.
- Gain on disposition of stock in an Interest Charge Domestic International Sales Corporation.
- Gain on the sale or exchange of stock in certain foreign corporations.
- Gain or loss on options to buy or sell, including closing transactions.
- Transfer of property to a foreign corporation as paid-in surplus or as a contribution to capital, or to a foreign trust or partnership.
- Transfer of property to a partnership which would be treated as an investment company if the partnership were incorporated.
- Gain on the sale of qualified reinvested dividends from a qualified public utility. See **Publication 550,** Investment Income and Expenses, for details.
- Transfer of appreciated property to a political organization.
- Loss on sale, exchange, or worthlessness of small business stock (section 1244 stock).

For rules on nontaxable exchanges, gifts of property, and inherited property, see Publication 544.

For treatment by shareholders of corporate liquidations, see **Publication 542,** Tax Information on Corporations.

For information on mutual fund transactions, see **Publication 564,** Mutual Fund Distributions.

Exchange of Like-Kind Property

Report the exchange of "like-kind" property even though no gain or loss is recognized when you exchange business or investment property for property of "like-kind." For exceptions, see Publication 544.

Identify in column (a) the property you disposed of. Enter the date you acquired it in column (b), and the date you exchanged it in column (c). Write "like-kind exchange" in column (d). Enter the cost or other basis in column (e). Enter zero in columns (f) and (g).

Sale or Exchange (Other Than Involuntary Conversion) of Capital Assets Held for Personal Use

This type of gain is a capital gain. Report it on Schedule D, Part II or Part III. Loss from the sale or exchange of this property is not deductible.

Disposition of Partnership Interest

A sale or other disposition of an interest in a partnership may result in ordinary income. See **Publication 541,** Tax Information on Partnerships, and Publication 544.

Long-Term Capital Gains From Regulated Investment Companies

Include in income as a long-term capital gain the amount(s) shown on **Form 2439** that represents your share of the undistributed capital gains of a regulated investment company. Enter the tax paid by the company as shown on Form 2439 on line 63 of Form 1040. Add to the basis of your stock, the excess of the amount included in income over the credit.

Sale of Residence

Use **Form 2119,** Sale or Exchange of Principal Residence, to report a gain from the sale of your principal residence whether or not you bought another one. For more information, see **Publication 523,** Tax Information on Selling Your Home.

Installment Sales

If you sold property at a gain, and you will receive a payment in a tax year after the year of sale, you must report the sale on the installment method unless you elect not to. Use **Form 6252,** Computation of Installment Sale Income. Also use Form 6252 if you received a payment in 1985 for a sale made in an earlier year on the installment method.

If you are a cash basis taxpayer and you are using the installment method for a year-end stock sale when payment will be received in the following year, report the sale on Schedule D in the year you receive the payment.

If you want to elect out of the installment method, report the sale as follows on a timely filed return (including extensions):

(1) Report the full amount of the sale on Schedule D.

(2) If you received a note or other obligation and are reporting it at less than face value (including all contingent payment obligations), complete Part VI. If you received more than one, enter the amounts separately in the spaces in Part VI.

Investment Interest Expense Deduction Adjustment

If you have an entry on **Form 4952,** line 20, and Schedule D, line 21 (or Form 4798, line 8), part or all of line 20 of Form 4952 may be treated as ordinary income.

Determine the ordinary income for Schedule D or Form 4798 as follows:

Step 1—In a separate computation, reduce line 20 of Form 4952 by the amount by which line 15 of that form is more than the sum of lines 16 through 19 of that form.

Step 2—Ordinary income will be the smaller of step 1 or line 21 of Schedule D (or line 8 of Form 4798).

Enter the ordinary income in the margin to the right of line 21 of Schedule D (or line 8, Part I of Form 4798). Identify by writing next to it: "From Form 4952." Subtract the ordinary income from the gain on lines 20 and 21 of Schedule D (or lines 7 and 8, Part I of Form 4798). In addition, enter the ordinary gain on line 15, Part II of Form 4797. If you do not use Form 4797 for other transactions, enter it on Form 1040, line 15 and identify it in the margin as "From Form 4952."

Section 1256 Contracts and Straddles

Use **Form 6781,** Gains and Losses From Section 1256 Contracts and Straddles, to report gains and losses from section 1256 contracts and straddles. See **Publication 550,** Investment Income and Expenses, for more information.

Specific Instructions

Note: *If you attach your own schedule to show detail of gain or (loss), enter on Schedule D, lines 5 and 13, the total gain and the total loss. Do not combine the total gain with the total loss.*

Column (d)

Gross Sales Price

Enter in this column the gross sales price from the sale. On sales of stocks and bonds, report the gross amount reported to you by your broker on **Form 1099-B,** or similar statement. However, if the broker advised you that gross proceeds less commissions and option premiums were reported to IRS, enter that net amount in column (d). If the net amount is entered in this column, do not include the commissions and option premiums in column (e).

Column (e)

Cost or Other Basis

In general, the cost or other basis is the cost of the property plus purchase commissions, improvements, and minus depreciation, amortization, and depletion. If you inherited the property or got it as a gift, in a tax-free exchange, involuntary conversion, or "wash sale" of stock, you may not be able to use the actual cash cost as the basis. If you do not use cash cost, attach an explanation of your basis.

When selling stock, adjust your basis by subtracting all the nontaxable distributions you received before the sale. Also adjust your basis for any stock splits.

The basis of property acquired by gifts generally is the basis of the property in the hands of the donor.

The basis of property acquired from a decedent is generally the fair market value at the date of death.

If a charitable contribution deduction is allowed because of a sale of property to a charitable organization, the adjusted basis for determining gain from the sale is an amount which has the same ratio to the adjusted basis as the amount realized has to the fair market value.

Increase your cost or other basis by any expense of sale such as broker's fee, commission, and option premium before making an entry in column (e), unless you reported net sales price in column (d).

For more information, see **Publication 551**, Basis of Assets.

Line 7

Short-Term Capital Loss Carryover From Years Beginning After 1969

Enter the amount from your 1984 Schedule D (Form 1040), line 30, or your 1984 Form 4798, Part II, line 20.

Line 18

Long-Term Capital Loss Carryover From Years Beginning After 1969

Enter the amount from your 1984 Schedule D (Form 1040), line 36, or your 1984 Form 4798, Part II, line 26.

Note: *If you used Form 4798 in 1984 and had an entry in Part II, line 17 or 23, use Form 4798 in 1985 instead of completing Schedule D, Parts IV or V.*

Line 25c

(or Form 4798, Part I, line 30c)

Taxable Income as Adjusted

Figure your taxable income, as adjusted, with a separate calculation. Do this in the following way:

a. Figure the amount from Form 1040, line 35, without regard to gains and losses from sales or exchanges of capital assets.

b. Subtract from the amount in **a** one of the following:

1. $2,390 if you are filing as single or head of household.

2. $3,540 if you are married filing a joint return or you are a qualifying widow(er) with a dependent child.

3. $1,770 if you are married filing a separate return.

Part VII

Reconciliation of Forms 1099-B With Tax Return

This part will enable IRS to compare amounts reported by brokers and barter exchanges with amounts reported on your return.

Enter on line 38 amounts you reported on Schedule D that were not reported to you on Form 1099-B or a similar statement.

For example, you report a year-end stock sale in 1985 but your broker includes it on a Form 1099-B sent to you for 1986. Also include proceeds from transactions that do not require a Form 1099-B on this line.

Enter on line 40 amounts reported to you on Form 1099-B that you are not reporting on Schedule D. For example, if you receive a Form 1099-B for an item that represents a return of capital, attach a statement and note "no gain or loss, return of capital."

Instructions for Schedule E Supplemental Income

Changes You Should Note

- Part V, which is used to report depreciation only if you have property placed in service before 1980, is now optional.
- If you claim any expenses for use of an automobile or other "listed property" in a trade or business or for the production of income, you must complete the appropriate sections of Part III of **Form 4562**, Depreciation and Amortization. For more information, see **Publication 534**, Depreciation.
- The partnership and S corporation sections in Part II have been combined. If you have income or (loss) from a partnership or an S corporation, or both, please identify each entry by writing "P" for partnership or "S" for S corporation in column (b) of Part II.

Purpose of Schedule

Use Schedule E to report income or (loss) from rents and royalties, partnerships, S corporations, and estates and trusts.

Note: *If you attach your own schedules to report income or (loss) from any of these sources, use the same format as the Schedule E. Enter separately on Schedule E the total of net income and the total of net loss for each part.* ***DO NOT*** *combine the total of net income with the total of net loss on the separate schedules.*

At-Risk Rules (Parts I and II)

If you have (1) a loss from any activity that you, your partnership, or S corporation engaged in as a trade or business or for the production of income, except the holding of real property (other than mineral property), and (2) you have amounts for which you are not at risk in the activity, use **Form 6198**, Computation of Deductible Loss From an Activity Described in Section 465(c), to determine the allowable loss to report on Schedule E.

Amounts for which you are not at risk are amounts such as the following:

1. nonrecourse loans used to finance the activity, acquire property used in the activity, or acquire your interest in the activity unless they are secured by property not used in the activity;

2. amounts protected against loss by a guarantee, stop-loss agreement, or similar arrangement;

3. loans from someone who has an interest in the activity, other than as a creditor, or who is related, under section 168(e)(4), to a person (other than yourself) having such an interest; or

4. amounts contributed to the activity, or to your interest in the activity that is covered by:

- nonrecourse loans or protected against loss by a guarantee, stop-loss agreement, or similar arrangement; or
- loans from a person described in 3 above.

For more details, get **Publication 536**, Net Operating Losses and the At-Risk Limits.

The at-risk rules may apply to a member of a partnership or joint venture, shareholder in an S corporation, or lessor of certain property. Generally, the amount you have at risk limits the loss you can deduct for any tax year.

Partners and S corporation shareholders should get a separate statement of income, expenses, deductions, and credits for each activity engaged in by the partnership and S corporation. See Form 6198 and the related instructions for more information.

If, in addition to the amount that you report on Schedule E, you sell or otherwise dispose of (1) an asset used in an activity to which the at-risk rules apply, or (2) any part of your interest in an activity to which the at-risk rules apply, and you have amounts in the activity for which you are not at risk, see the instructions for Form 6198.

If you have amounts that are not at risk, get Form 6198 to determine the amount of deductible loss. If the loss is from Part I, Schedule E, enter the deductible amount in the appropriate column(s) on line 21. If the loss is from Part II, Schedule E, enter the deductible amount in column (e).

Any loss from an activity not allowed for the tax year is treated as a deduction allocable to the activity in the next tax year.

Part I

Rental and Royalty Income or Loss

Generally, you should use this part to report rental and royalty income. Report rents from property you own or control, including room and other space rentals. However, if you provided services to the renter, or if your business was selling real estate, report the income on **Schedule C (Form 1040).** For more information on rental income and expenses, see **Tele-Tax Information** in the index (topic no. 143) or get **Publication 527**, Rental Property.

Report royalties from oil, gas, or mineral properties, copyrights, and patents. However, if you hold an operating oil, gas, or mineral interest, or are in business as a self-employed writer, inventor, artist, etc., report gross income and expenses on Schedule C.

If you use Part I to report rental and royalty income, enter your rental and royalty expenses for each property in the appropriate columns on lines 4 through 20.

If you have a loss from an activity except the holding of real property (other than mineral property), see the **At-Risk Rules** on page 25.

If you have more than three rental or royalty properties, complete and attach as many Schedules E as are needed to list the properties. Complete lines 1 and 2 for each property. However, fill in the "Totals" column for lines 3, 10, 18, 19, and 22 through 26 on only one Schedule E. The figures in the total column on that Schedule E should be the combined totals of all the schedules.

If you also need to use page 2 of Schedule E, use the same Schedule E that you used to enter the combined totals in Part I.

Rentals

If you were not in the real estate sales business and you received rent from property you own or control, report it on line 3a. If you received services or property, instead of money, as rent, report its fair market value.

You can deduct an amount for the depreciation of rental property. You can also deduct all normal expenses, such as taxes, interest, repairs, insurance, maintenance, and agent's commissions.

Property subject to a net lease or held for investment purposes is considered investment property. Generally, the interest deduction on debts incurred to acquire such property is subject to limitations. If your total interest on investment debts created after 1969, including investment interest from all other sources, is more than $10,000 ($5,000 if married filing separately), see **Form 4952,** Investment Interest Expense Deduction.

Do not deduct the value of your own labor. Do not deduct capital investments or improvements; instead add these to the basis of the property for depreciation. Example: A landlord can deduct the cost of minor repairs, but not the cost of major improvements, such as a new roof.

Renting Out Part of Your Home

If you rent out only part of your home or other property, deduct the part of your expenses that apply to the rented part.

Renting Out a Home That Is Also Used for Personal Purposes

Generally, you may deduct only those expenses which apply to the time that the home or other dwelling unit is rented out. A dwelling unit includes a house, apartment, condominium, mobile home, boat, or similar property. Also, if you or your family used the property as a residence, certain expenses cannot be more than the gross rental income. Only interest, taxes, and casualty losses do not have to be limited. Generally, a home or other dwelling unit is used as a residence if you or your family used it for personal purposes for more than the greater of:

a. 14 days, or

b. 10% of the number of days during 1985 that the property was actually rented out at a fair rental.

A day of personal use is any day, or part of a day, that the unit is used—

- for personal purposes by you, or any other person who has an interest in it, unless the unit is rented to that person under a shared equity financing agreement, or
- by a member of your family or family member of any other person who has an interest in it, unless the unit is rented at fair rental as that person's residence, or
- by anyone under an arrangement that lets you use some other dwelling unit, or
- by anyone at less than fair rental.

If you used the property as a residence and rented it out for less than 15 days, you may not deduct any rental expenses. However, if you itemize your deductions, you may deduct any interest, taxes, and casualty losses on **Schedule A (Form 1040).** You do not have to report the rental income.

Family includes **ONLY** brothers, sisters, half brothers, half sisters, spouse, ancestors (parents, grandparents, etc.), and lineal descendants (children, grandchildren, etc.).

Mortgage Interest Paid to Financial Institutions

If you have a mortgage on your rental property, enter on line 10 the interest you paid to financial institutions. Be sure to fill in the "Totals" column.

If you paid $600 or more of interest on this mortgage, you should receive a **Form 1098,** Mortgage Interest Statement, or similar statement, showing the total interest received from you during 1985. You should receive this statement by January 31, 1986. If you and at least one other person (other than your spouse if you file a joint return) were liable for, and paid interest on, the mortgage, and the other person received the Form 1098, attach a statement to your return showing the name and address of the person who received the Form 1098. In the left margin, next to line 10, write "see attached."

Royalties

Report on line 3b royalties from oil, gas, or mineral properties; copyrights; and patents, not including operating oil, gas, or mineral interests. If you are in business as a self-employed writer, inventor, artist, etc., report income and expenses on Schedule C (Form 1040). Under certain circumstances, you can treat amounts received as "royalties" for transfer of a patent or amounts received on the disposal of coal and iron ore as the sale of a capital asset. For more details, get **Publication 544,** Sales and Other Dispositions of Assets.

If state or local taxes were withheld from oil or gas payments you received, enter on line 3b the gross amount of royalty. Include the taxes withheld by the producer on line 14, but **DO NOT** include on line 14 the amount of windfall profit taxes actually withheld in 1985. Instead, enter that amount in Part III, line 34.

Enter your depletion deduction on line 19. See **Publication 535** for information on depletion.

Rental Income From Farm Production or Crop Shares

Report farm rental income and expenses on **Form 4835,** Farm Rental Income and Expenses, if you meet these two tests:

a. You received rental income that was based on crops or livestock produced by the tenant.

b. You did not manage or operate the farm to any great extent.

Note: *For purposes of the estimated tax penalty, income received from your share of crops and rental based on farm production is considered income from farming.*

If you use Form 4835, enter on line 25 of Schedule E the net farm rental profit or (loss) from Form 4835, line 35.

Certified Historic Structures

If you own a certified historic structure and pay or incur certain capital expenditures to rehabilitate it, special rules apply. See **Publication 535,** Business Expenses, for more information.

Expenses To Rehabilitate Low-Income Housing

You may amortize over a 60-month period up to $20,000 of the costs you paid or incurred in 1985 to rehabilitate qualified low-income housing. Get Publication 535 for more details.

Deduction for Removal of Barriers to the Handicapped and Elderly

You can deduct up to $35,000 of the costs you paid or incurred in 1985 to remove architectural or transportation barriers to the handicapped and the elderly. Get Publication 535 for more details.

Part II

Income or Losses From Partnerships, S Corporations, Estates, or Trusts

Tax Shelter Registration Number. A person who sells (or otherwise transfers) to you an interest in a tax shelter must maintain a list of investors and give you the tax shelter registration number assigned to the tax shelter. You must attach to your tax return **Form 8271,** Investor Reporting of Tax Shelter Registration Number, to report this number. Penalties are provided if you fail to report this number on your tax return.

Note: *If you need additional space in Part II to list your income or losses, attach a continuation sheet. However, be sure to complete columns (e) and (f) of line 27 or line 31, as appropriate.*

Include your share of tax preference items on **Form 6251,** Alternative Minimum Tax.

Partnerships

If you are a member of a partnership or joint venture, include in this part your share of the partnership income (whether you received it or not) or net loss for the partnership tax year that ends during the year covered by your return. You should receive a **Schedule K-1 (Form 1065)** from the partnership. Do not attach the schedule to your return. Keep it for your records.

If you have other partnership items, such as depletion, show each item on a separate line in Part II. If you have unreimbursed partnership expenses, show them on a separate line and enter the amounts in column (e). If you are claiming a deduction for recovery property (section 179), enter the amount of this deduction on line 29 of Schedule E.

Note: *The amount of your section 179 deduction from* ***ALL*** *sources cannot be more than $5,000 ($2,500 if you are married filing a separate return).*

Part or all of your share of partnership income or loss from the operation of the business may be considered net earnings from self-employment that must be reported on **Schedule SE (Form 1040).** Enter the amount from Schedule K-1 (Form 1065), line 13a, on Schedule SE, Part I, after you have reduced this amount by any section 179 deduction claimed, unreimbursed partnership expenses claimed, and depletion claimed on oil and gas partnerships. Get **Publication 535** to determine the allowable depletion deduction.

If you have a loss, see the **At-Risk Rules** on page 25.

For more information for this part, please see your copy of Schedule K-1 (Form 1065) and **Partner's Instructions for Schedule K-1 (Form 1065).** If you did not receive a copy of these instructions with your Schedule K-1 (Form 1065), you can get a copy at most IRS offices.

If you are treating partnership items on your tax return differently from the way the partnership reported the items on its return, you may have to file **Form 8082,** Notice of Inconsistent Treatment or Amended Return.

If you have losses or deductions from a prior year that you could not deduct in the prior year because of the at-risk rules or basis rules, do not combine the prior-year amounts with any current-year amounts to arrive at a net figure to report on Schedule E. Instead, report on separate lines on Schedule E prior-year amounts and current-year amounts.

S Corporations

If you are a shareholder of an S corporation, you should receive a **Schedule K-1 (Form 1120S)** from the S corporation. Do not attach the schedule to your return. Keep it for your records. Report your share of the income (whether you received it or not) or net loss of the corporation on Schedule E in the same manner as the income or loss of a partnership. Your share of the net income is **NOT** subject to self-employment tax. Also, distributions of prior-year accumulated earnings and profits of all S corporations are dividends and are reported on **Schedule B (Form 1040).** For more information, get **Publication 589,** Tax Information on S Corporations.

If you have a loss, see the **At-Risk Rules** on page 25.

If you are treating S corporation items on your tax return differently from the way the S corporation reported the items on its return, you may have to file **Form 8082.**

If you are claiming a deduction for recovery property (section 179), enter the amount of this deduction on line 29 of Schedule E.

Note: *The amount of your section 179 deduction from* ***ALL*** *sources cannot be more than $5,000 ($2,500 if you are married filing a separate return).*

If you are a shareholder claiming a deduction for your share of the S corporation's net operating loss, attach to your return a computation of the adjusted basis of your stock in the corporation and the adjusted basis of any debt the corporation owes you. Your deduction is limited to that amount. However, any amount not allowed this year may be carried forward and deducted in a later year in which you have sufficient basis in the stock and debt. See Publication 589 for information on adjustments to basis.

Estates and Trusts

If you are a beneficiary of an estate or trust, you should receive a **Schedule K-1 (Form 1041)** from the fiduciary. Do not attach the schedule to your return. Keep it for your records. Report your taxable part of the income (whether you received it or not) as follows:

- Dividends qualifying for the dividend exclusion—enter on **Schedule B (Form 1040),** Part II, line 4. If total dividends received from all sources are $400 or less, enter the total on Form 1040, line 9a. Do not list them on Schedule B.
- Capital gains—**Schedule D (Form 1040)**.
- Other taxable income less deductions—Schedule E, Part II.

For more information, contact the fiduciary or see Schedule K-1 (Form 1041).

If you have a loss, see the **At-Risk Rules** on page 25.

A U.S. person who transferred property to a foreign trust may have to include in income the income received by the trust as a result of the transferred property if, during 1985, the trust had a U.S. beneficiary. For more information, see **Form 3520-A,** Annual Return of Foreign Trust With U.S. Beneficiaries.

Part III

Caution: *If you are a member of a partnership, the amounts entered on lines 33 and 34 may affect your net earnings from self-employment on Schedule SE.*

Line 33

In certain situations, you must report as income on line 33 the amount of any credit or refund of overpaid windfall profit tax you received in 1985 for tax year 1984, based on overwithholding or the net income limitation.

In general, the amount of credit or refund you received is income to the extent you deducted windfall profit tax withheld in 1984 on Schedule E, and received a tax benefit for the deduction on your 1984 tax return. For more information, see the instructions for **Form 6249,** Computation of Overpaid Windfall Profit Tax.

Line 34

If you are a cash method taxpayer, deduct on line 34 the amount of windfall profit tax actually withheld in 1985.

Part IV

Line 37

Enter on this line your total share of gross farming and fishing income as shown on Form 4835, line 8, Schedule K-1 (Form 1065), line 13b, Schedule K-1 (Form 1120S), line 19, and Schedule K-1 (Form 1041), line 10.

You will not be charged a penalty for underpayment of estimated tax if you meet the following tests:

- your gross farming or fishing income for 1984 or 1985 is at least two-thirds of your gross income, and
- you file your 1985 tax return and pay the tax due by March 3, 1986.

Part V

Depreciation

You can deduct an amount each year for property you buy to use in your business or hold to produce investment income. The deduction does not apply to land and personal use property.

Generally, you **MUST** use the Accelerated Cost Recovery System (ACRS) for all property you place in service after December 31, 1980.

The use of Part V is optional. You may use the worksheet to figure depreciation only on property placed in service before 1981. However, if you placed any property in service after 1980, you must also get **Form 4562,** Depreciation and Amortization, to report your depreciation on all property. Enter in Part I, line 19, the amount from Form 4562, Part I.

For more information on depreciation, see the instructions for Form 4562 and **Publication 534,** Depreciation.

Instructions for

Schedule C

Profit or (Loss) From Business or Profession

Changes You Should Note

Depreciation. For "passenger automobiles" placed in service after April 2, 1985, the depreciation deduction for each vehicle, including any section 179 deduction, is limited to $3,200 in the first year, and $4,800 in each succeeding year. These amounts are further reduced if your business use is less than 100%. See the instructions for **Form 4562,** Depreciation and Amortization, and **Publication 534,** Depreciation, for details.

If you have listed property (such as an automobile or light truck) that you placed in service in a prior year for which you claimed a depreciation deduction, and the business use percentage of the property decreased to 50% or less during 1985, you may have to recapture excess depreciation including the section 179 expense deduction. See **Form 4797,** Gains and Losses From Sales or Exchanges of Assets Used in a Trade or Business and Involuntary Conversions, and its instructions for details.

New Reporting Information Required for Listed Property. For 1985, if you claim any expenses, including depreciation or lease payment deduction, for any listed property, you must complete Part III of Form 4562. See the instructions for Form 4562 and Publication 534 for details.

Principal Business Codes. Beginning in 1985, you must enter on line B a code that identifies your principal business or professional activity. See the instructions on page 2 of Schedule C for details.

Purpose of Schedule

If you operated a business or practiced a profession as a sole proprietorship, complete **Schedule C.** If you had more than one business, or if you and your spouse had separate businesses, you must complete a Schedule C for each business. Farmers should use **Schedule F.**

Deduct interest, taxes, and casualty losses not related to your business as itemized deductions on **Schedule A.**

Report sales, exchanges, and involuntary conversions (other than casualty or theft) of trade or business property on Form 4797.

Use **Form 4684,** Casualties and Thefts, to report a casualty or theft involving trade or business, or income-producing property.

You must pay social security self-employment tax on income from any trade or business unless you are specifically excepted. Please see **Schedule SE.**

For more details about business income and expenses, get **Publication 334,** Tax Guide for Small Business. It contains more information regarding the line items discussed below.

Information Returns

You may have to file information returns for wages paid to employees, certain payments of fees and other non-employee compensation, interest, rents, royalties, annuities, and pensions, or for sales by you of $5,000 or more of consumer products to a person on a buy-sell, deposit-commission, or other basis for resale. For more information, see instructions for **Form W-3,** Transmittal of Income and Tax Statements, **Form W-3G,** Transmittal of Certain Information Returns, Instructions for Form 1099 Series, 1098, 5498, and 1096, and **Publication 916,** Information Returns.

In addition, if you receive cash of more than $10,000 in one or more related transactions in the course of your trade or business, you may have to file **Form 8300.** See the instructions for Form 8300 for details.

Line A

Principal Business or Profession

Describe the business or professional activity that provided your principal source of sales or receipts included on Schedule C, Part I, line 1a. Give the general field or activity and the type of product or service. If your general field or activity is wholesale or retail trade, or services connected with production services (mining, construction, or manufacturing), then also give the type of customer or client. For example, "wholesale sale of hardware to retailers" or "appraisal of real estate for lending institutions."

Line C

Business Name and Address

Use your home address only if you actually conducted the business from your home. You should show a street address instead of a box number.

Line D

Employer Identification (ID) Number

You don't need an employer ID number unless you had a Keogh plan or were required to file an employment, excise, or alcohol, tobacco, and firearms tax return.

Line E

Valuation Methods

Your inventories can be valued at:

- cost,
- cost or market value, whichever is lower, or
- any other method approved by the Commissioner of Internal Revenue.

Line F

Accounting Methods

You must use the cash method on your return unless you kept account books. If you kept such books, you can use the cash method, accrual method, or in some cases, the completed contract or percentage-of-completion method. The method used must clearly reflect your income.

To change your accounting method (including the treatment of any item such as inventories or bad debts), you must usually first get the permission of the Commissioner of Internal Revenue. In general, file **Form 3115** within the first 180 days of the tax year in which you want to make the change.

If you use the **cash method,** show all items of taxable income actually or constructively received during the year (in cash, property, or services). Also show amounts actually paid during the year for deductible expenses. Income is constructively received when it is credited to your account or set aside for you to use.

If you use the **accrual method,** report income when you earn it and deduct expenses when you incur them, even if you do not pay them during the tax year.

Accrual-basis taxpayers are put on a cash basis for deducting business expenses owed to a related cash-basis taxpayer. Other rules also apply that determine the timing of deductions based on economic performance. See **Publication 538,** Accounting Periods and Methods, for details.

Line H

Business Use of Your Home

Within certain limits, you may deduct business expenses that apply to a part of your home **only** if that part is exclusively used on a regular basis:

a. as your principal place of business for any of your trades or businesses, or

b. as a place of business used by your patients, clients, or customers to meet or deal with you in the normal course of your trade or business, or

c. in connection with your trade or business if it is a separate structure that is not attached to your home.

You may also deduct expenses that apply to space within your home if it is the **only** fixed location of your trade or business. The space must be used on a regular basis to store inventory held for use in your trade or business of selling products at retail or wholesale.

If you use space in your home on a regular basis in your trade or business of providing day care service, you may be able to deduct the business expenses even though you also use the same space for nonbusiness purposes.

Please get **Publication 587,** Business Use of Your Home, for more information.

Part I

Income (Lines 1 through 5)

Line 1a

Gross Receipts or Sales

Enter gross receipts or sales from your business. Be sure to include on this line amounts you received in your trade or business as shown on **Form(s) 1099-MISC.**

Installment Sales. If you use the installment method of reporting sales income, please attach a schedule showing separately for 1985 and the three preceding years: gross sales; cost of goods sold; gross profit; percentage of gross profits to gross sales; amounts collected; and gross profits on amounts collected.

Line 1b

Returns and Allowances

You should enter on line 1b such items as returned sales, rebates, and allowances from the sales price.

Line 4a

Income From Overpaid Windfall Profit Tax

In certain situations, you must report as income on line 4a the amount of any credit or refund of overpaid windfall profit tax you received in 1985 for tax year 1984, based on overwithholding or the net income limitation.

In general, the amount of credit or refund you received is income to the extent you deducted windfall profit tax withheld in 1984 on Schedule C, and received a tax benefit for the deduction on your 1984 tax return. For more information, see the instructions for **Form 6249,** Computation of Overpaid Windfall Profit Tax.

Line 4b

Other Income

Include finance reserve income, scrap sales, amounts recovered from bad debts, interest, such as on notes and accounts receivable, and other kinds of miscellaneous income from the business or profession.

If you have listed property that you placed in service in a prior year and the business use percentage decreased to 50% or less in 1985, report on this line any recapture of excess depreciation, including the section 179 expense deduction. Use **Form 4797** to figure the amounts to be recaptured.

Part II

Deductions (Lines 6 through 32)

Line 7

Bad Debts From Sales or Services

Caution: *Cash method taxpayers are not entitled to a bad debt deduction unless the amount was previously included in income.*

Include debts and partial debts arising from sales or services that were included in income and are definitely known to be worthless. Instead of this, you may deduct a reasonable amount that was added during the tax year to a bad debt reserve.

If you later collect a debt that you deducted as a bad debt, include it as income in the year you collect it unless you use the bad debt reserve method. For more information, please get **Publication 548,** Deduction for Bad Debts.

Line 9

Car and Truck Expenses

You can deduct the actual cost of running your car or truck, or take the fixed mileage rate. You must use actual costs if you use more than one vehicle in your business. If you deduct actual cost, show depreciation on line 12.

Note: *If you claim any car expenses, you must complete Part III of* ***Form 4562,*** *Depreciation and Amortization.*

The fixed rate is figured at 21 cents a mile up to 15,000 miles, and 11 cents for each mile after that. Add to this amount your parking fees and tolls.

For cars and trucks that have been fully depreciated, the rate is 11 cents a mile.

If you use the fixed rate, the vehicle is considered to have a useful life of 60,000 miles of business use at the maximum fixed mileage rate.

If you place a car or truck in service after December 31, 1980, and take the fixed mileage rate, you are treated as having elected to exclude this vehicle from ACRS.

For more details, get **Publication 463,** Travel, Entertainment, and Gift Expenses.

Note: *If you use certain highway trucks, truck-trailers, tractor-trailers, or buses in your trade or business, you may have to pay a Federal highway use tax on these vehicles. Get* ***Form 2290,*** *Heavy Vehicle Use Tax Return, to see whether you are subject to the tax.*

Line 11

Depletion

Enter your total deduction for depletion on this line. If you claim a deduction for timber depletion, please attach **Form T.** Get **Publication 535** for details.

Line 12

Depreciation, Including Section 179 Expense Deduction

You can deduct an amount each year for assets you buy to use in your business or hold to produce investment income. The deduction for depreciation does not apply to stock in trade, inventories, land, and personal assets.

Generally, you **MUST** use the Accelerated Cost Recovery System (ACRS) for all assets you place in service after December 31, 1980.

You may also choose under section 179 to expense part of the cost of certain depreciable property you bought in 1985 for use in your business. You may deduct a portion of the cost of recovery property that would otherwise qualify for investment credit. However, you may not depreciate or amortize the same costs. In general, for cars or other "listed property" placed in service in 1985, you may not take this deduction if the property is used 50% or less in your trade or business.

Figure your depreciation deduction, including the section 179 expense deduction, on Form 4562. Enter on line 12 of Schedule C the amount from Form 4562, Part I, that you have not included in Part III of Schedule C.

See **Depreciation** and **New Reporting Information Required for Listed Property** in "Changes You Should Note" on page 28.

Investment Credit. You may be able to take a credit for part of the cost of qualifying property used in your trade or business. To see if you qualify, get **Form 3468,** Computation of Investment Credit.

If you dispose of investment credit property before the end of its class life or life years, the business use percentage decreases, or the use of the property otherwise changes so that it no longer qualifies, you may have to refigure the credit. Get **Form 4255,** Recapture of Investment Credit, for details.

Line 14

Employee Benefit Programs

Enter the amount of your contributions that are not an incidental part of a pension or profit-sharing plan included on line 22. Also include here contributions to insurance, health, and welfare programs.

Lines 19 and 21

Interest on Business Indebtedness

If you paid interest that applies to future years, deduct for 1985, only the part that applies to 1985.

If you have a mortgage on real property used in your business, enter on line 19 the interest you paid to financial institutions. If you paid $600 or more of interest on this mortgage, you should receive a **Form 1098,** Mortgage Interest Statement, or similar statement, showing the total interest received from you during 1985. You should receive this statement by January 31, 1986. If you and at least one other person (other than your spouse if you file a joint return) were liable for, and paid interest on, the mortgage and the other person received the Form 1098, attach a statement to your return showing the name and address of the person who received the Form 1098. In the left margin, next to line 19, write "see attached."

Don't take a deduction on Schedule C for interest you paid or accrued on debts from buying or carrying investment property. Deduct this interest on **Schedule A.** For more information, see **Publication 550,** Investment Income and Expenses.

Line 22

Pension and Profit-Sharing Plans

You should enter the amount you claim as a deduction for contributions to a pension, profit-sharing, or annuity plan, or plans for the benefit of your employees. If the plan includes you as a self-employed person, you should enter contributions made as an employer on your behalf (but not voluntary contributions you made as an employee) on Form 1040, line 27, instead of on Schedule C, line 22.

Generally, you are required to file one of the following forms if you maintain a pension, profit-sharing, or other funded-deferred compensation plan whether or not it qualified under the Internal Revenue Code and whether or not you claim a deduction for the current tax year.

Form 5500.—Complete this form for each plan with 100 or more participants.

Form 5500-C or 5500-R.— Complete the applicable form for each plan with less than 100 participants.

The Employee Retirement Income Security Act of 1974 imposes a penalty for failure to timely file these forms.

For more information, get **Publication 560,** Self-Employed Retirement Plans.

Line 24

Repairs

You can deduct the cost of repairs including labor, supplies, and other items that do not add to the value or increase the life of the property. Do not deduct the value of your own labor. And do not deduct amounts you spent to restore or replace property. They are chargeable to capital accounts or to the depreciation reserve, depending on how depreciation is charged on your books. However, see the instructions for line 12 of Schedule C.

Line 27

Travel and Entertainment

You can deduct all ordinary and necessary travel and entertainment expenses paid or incurred in your trade or business.

However, you cannot deduct any expense paid or incurred for a facility (such as a yacht or hunting lodge) that is used for any activity that is usually considered entertainment, amusement, or recreation.

***Note:** You may be able to deduct the expense if the amount is treated as compensation and reported on **Form W-2** for an employee or **Form 1099-MISC** for an independent contractor. (See **Publication 463** for more details.)*

Foreign Conventions. Generally, you cannot deduct expenses for attending a foreign convention unless it is directly related to your trade or business and it is as reasonable for the meeting to be held outside the North American area or Jamaica as within it. (For the definition of "North American area," see Publication 463.) You may also be able to deduct expenses for attending conventions held in certain Caribbean countries but only if the country met certain requirements. See Publication 463 for more details.

These rules apply to employers as well as to employees.

You may be able to deduct up to $2,000 of the cost of business expenses for attending conventions or similar meetings on a U.S. cruise ship. On a joint return, you may be able to deduct up to $4,000 if each spouse attended the meeting and each spouse had at least $2,000 of qualifying expenses. You must attach two separate statements to your tax return to support the deduction. See Publication 463 for details on what these statements must include and for specific rules on deducting expenses for attending meetings on U.S. cruise ships.

Line 29

Wages

Enter on line 29a the total salaries and wages (other than salaries and wages deducted elsewhere on your return) paid or incurred for the tax year. Do not include any amount paid to yourself.

***Caution:** If you provided taxable fringe benefits to your employees, such as personal use of a car, do not deduct as wages the amount applicable to depreciation and other expenses that you claimed elsewhere.*

Enter on line 29b the jobs credit from **Form 5884.** Subtract line 29b from wages shown on line 29a and enter the balance on line 29c. For more details, please get **Publication 906,** Jobs and Research Credits.

Line 30

Windfall Profit Tax Withheld

If you hold an operating oil, gas, or mineral interest, and you are a cash method taxpayer, deduct on line 30 the amount of windfall profit tax actually withheld in 1985. **Form 6248,** Annual Information Return of Windfall Profit Tax—1985, shows the amount of windfall profit tax actually withheld in 1985.

Line 31

Other Business Expenses

Include all ordinary and necessary business expenses not deducted elsewhere on Schedule C. Do not include the cost of business equipment or furniture, replacements or permanent improvements to property, or personal living and family expenses.

Any loss from this activity that was not allowed as a deduction last year because of the at-risk provisions is treated as a deduction allocable to this activity in 1985.

Amortization. Use **Form 4562** to figure your amortization deduction. Include on line 31 of Schedule C the amount from Form 4562, Part II.

You may amortize over a 60-month period:

- The cost of pollution-control facilities.
- Certain expenditures made before January 1, 1982, for child care facilities.
- Up to $20,000 of the costs to rehabilitate qualified low-income housing.

You may amortize over a period of at least 60 months:

- Amounts paid for research, experiments, and a trademark or trade name.
- Certain business startup costs.

You may also amortize up to $10,000 of qualified forestation and reforestation costs over an 84-month period.

If you own a certified historic structure and pay or incur certain capital expenditures to rehabilitate it, special rules apply. See **Publication 535,** Business Expenses, for more information.

If you paid or incurred expenses to remove architectural or transportation barriers to the handicapped and the elderly, you may deduct up to $35,000 of the costs.

If you lease business property, you may be able to either depreciate or amortize your leasehold improvement costs. See Publication 535 for details.

Real property construction period interest and taxes generally cannot be fully deducted in the year you paid or incurred them. You must capitalize and amortize amounts not allowed as a deduction in the current year. This rule does not apply to low-income housing.

However, you do not have to capitalize and amortize real property interest and taxes attributable to real property that you do not reasonably expect to use in your trade or business or in an activity engaged in for profit.

For more details, get Publication 535.

Line 33

Net Profit or (Loss)

If you have a loss, go on to line 34 before entering your loss on line 33. If you fail to answer the question on line 34, processing of your tax return may be delayed.

Enter the net profit or deductible loss here and combine this amount with the profit or (loss) from your other businesses, if any. Enter the total on Form 1040, line 12, and Schedule SE, Part I, line 2 (or Form 1041, line 5).

Line 34

At Risk

Deductions for losses by persons who are engaged in a trade or business or an activity for the production of income, except the holding of real property (other than mineral property), are limited to the amount they have at risk in the business.

If you have (1) a loss from any activity that you engaged in as a trade or business or for the production of income, except the holding of real property (other than mineral property), and (2) you have amounts for which you are not at risk in the activity, use **Form 6198,** Computation of Deductible Loss From an Activity Described in Section 465(c), to determine the allowable loss to report on Schedule C.

Answer the question on line 34 "**YES**" if you have amounts for which you are not at risk for this business, such as the following:

1. nonrecourse loans used to finance your business, to acquire property used in your business, or to acquire your interest in the business unless they are secured by property not used in your business; or

2. amounts protected against loss by a guarantee, stop-loss agreement, or similar arrangement; or

3. loans from someone who has an interest in your business, other than as a creditor, or who is related, under section 168(e)(4), to a person (other than yourself) having such an interest; or

4. amounts contributed to your business, or to your interest in the business that is covered by:

- nonrecourse loans or protected against loss by a guarantee, stop-loss agreement, or similar arrangement; or
- loans from a person described in 3 above.

If you do not have any of these kinds of amounts for which you are not at risk in this business, answer the question "**NO**" and enter your loss on line 33.

If you answered "**YES**" to the question on line 34, get Form 6198 to determine the amount of your deductible loss and enter that amount on line 33. If your at-risk amount is zero or less, enter zero on line 33.

If, in addition to the amount that you report on Schedule C, you dispose of an asset used in an activity to which the at-risk rules apply, and you have amounts in the activity for which you are not at risk, see the instructions for Form 6198.

Any loss from this business not allowed for 1985 is treated as a deduction allocable to the business in 1986.

For more details, get **Publication 536,** Net Operating Losses and the At-Risk Limits. Also see the instructions for Form 6198.

Part III

Cost of Goods Sold and/or Operations

Cost of Goods Sold. If you engaged in a trade or business in which the production, purchase, or sale of merchandise was an income-producing factor, merchandise inventories must be taken into account at the beginning and end of your tax year.

Cost of Operations (Inventories Not an Income-Producing Factor). If the amount on line 2, Part I, includes the cost of operations, complete lines 1 through 8 of Part III as appropriate.

Instructions for Schedule SE Social Security Self-Employment Tax

A Change You Should Note

The self-employment tax rate for 1985 is 11.8% (14.1% reduced by a 2.3% credit) and the contribution base is $39,600.

Purpose of Schedule

Schedule SE is used by self-employed persons and employees of electing churches and qualified church-controlled organizations to figure any self-employment tax due. The Social Security Administration uses the information provided on Schedule SE to figure benefits for self-employed people under the social security program. Social security self-employment tax applies regardless of your age, and even if you are receiving social security benefits.

Who Must Use Schedule SE

You must use Schedule SE if:

- you were self-employed and your net earnings from self-employment were $400 or more ($100 or more if you were an employee of an electing church or church-controlled organization); and
- you did not have wages (including tips), other than "qualified" U.S. Government wages of $39,600 or more that were subject to social security tax or railroad retirement tax.

Who Can Use Schedule SE

You can use Schedule SE if you will benefit from using the optional method of figuring self-employment earnings.

The optional method may benefit you if:

- your self-employment earnings are less than $400 and Form 1040, line 33, is less than $11,000 and you wish to claim the earned income credit; or
- you had a loss from self-employment and you need to increase your net earnings from self-employment to qualify to claim the child and dependent care credit.

The optional method may give you credit toward your social security coverage even though you have a loss or low income from self-employment. However, the optional method may require you to pay self-employment tax when none would otherwise be required.

Fiscal Year Filers

If your tax year is a fiscal year, you must use the tax rate and earnings base that apply at the time the fiscal year begins. You need not prorate the tax or earnings base for a fiscal year that overlaps the date of a rate or earnings base change.

More Than One Business

If you farmed and had at least one other trade or business or had two or more trades or businesses, your net earnings from self-employment are the combined net earnings from all your businesses. If you had a loss in one trade or business, it reduces the income from another. Figure the combined self-employment tax on Schedule SE.

Joint Returns

Show the name of the spouse with self-employment income on Schedule SE. If both spouses have self-employment income, each must file a separate Schedule SE. Include the total profits or losses from all businesses on Form 1040, as appropriate. Then enter the combined self-employment tax on Form 1040, line 51.

Community Income

In figuring net earnings from self-employment, if any of the income from a business, including farming, is community income, all the income from that business is considered the income of the spouse who carried on the trade or business unless there is a husband and wife partnership. The identity of the spouse who carried on the trade or business is determined by the facts in each situation.

If you file separate returns, attach Schedule(s) C, Profit or (Loss) From Business or Profession, and Schedule SE (for nonfarm business) or Schedule(s) F, Farm Income and Expenses, and Schedule SE (for farm business) to the return of the spouse with the self-employment income. Community income included on these schedules must be divided, for income tax purposes, on the basis of the community property laws.

Partnerships

In figuring your combined net earnings from self-employment, you should include your entire share of earnings from a partnership, including any guaranteed payments. However, if you are a limited partner, do not include your share of income or loss from the partnership, other than guaranteed payments. Unless you and your spouse are partners, no part of your partnership earnings can be treated as your spouse's even if the income, under state law, is community income. If you and your spouse have a partnership, enter the distributive share of each as partnership income on Schedule E (Form 1040), Part II, for income tax purposes, and on separate Schedules SE, line 1 or line 2, for self-employment tax purposes.

If a partner in a continuing partnership dies, that member's distributive share of partnership ordinary income or loss for the year must be included in the partner's net earnings from self-employment. See **Publication 533,** Self-Employment Tax, if your partnership has a fiscal year.

Share-Farming

If you produced crops or livestock on land belonging to another for a share of the crops or livestock produced, or the proceeds from them, you are an independent contractor and a self-employed person rather than an employee. Report your net earnings for income tax on Schedule F and for self-employment tax on Schedule SE. For more information, get **Publication 225,** Farmer's Tax Guide.

Exemption From Self-Employment Tax for Members of the Clergy and Certain Religious Orders and Sects

If you are a duly ordained, commissioned, or licensed minister of a church, a member of a religious order (who has not taken a vow of poverty), or a Christian Science practitioner, you are subject to social security self-employment tax. But you can, under certain conditions, request IRS approval to exempt your income from services as a minister, member, or practitioner by filing **Form 4361.** If you have received IRS approval and have no other income subject to self-employment tax, write "Exempt—Form 4361" on Form 1040, line 51. If you filed Form 4361, but have $400 or more from other earnings subject to self-employment tax, you must complete Schedule SE.

Note: *If you have previously filed* ***Form 2031*** *to pay self-employment tax to get social security coverage, you cannot now apply for exemption.*

If you have conscientious objections to social security insurance because of your belief in the teachings of a recognized religious sect of which you are a member, you can request exemption from self-employment tax by filing **Form 4029.** If you filed Form 4029 and have received IRS approval, do not file Schedule SE. Instead, write "Exempt— Form 4029" on Form 1040, line 51.

Coverage for Overseas Missionaries

If you are a U.S. citizen and a minister (except a Christian Science practitioner) or member of a religious order serving outside the United States, you may figure earnings from self-employment as if you were serving in the United States (provided you have not elected exemption from coverage). For more information, please get **Publication 517,** Social Security for Members of the Clergy and Religious Workers.

Employees of Churches and Qualified Church-Controlled Organizations

Note: *If you are a minister or member of a religious order, do not use the following instructions.*

If you were employed by a church or a qualified church-controlled organization that has in effect a certificate electing exemption from employer social security taxes, and you received wages of $100 or more from any one church or church-controlled organization, you may be subject to self-employment tax. Enter these wages on line 2 of Schedule SE and complete the schedule. However, see the instructions for lines 9 and 13. If you do not have other self-employment income (or loss), skip lines 3 through 7 and enter the wages from line 2 on line 8.

Lines 9 and 13.—You may be subject to self-employment tax even if line 9 is less than $400. If line 9 is less than $100, you do **not** have to complete the rest of the schedule. If line 9 is $100 or more but less than $400 and you did **not** have a loss from a Schedule C, a Schedule F, or a partnership, enter on line 13 the smaller of line 12a or line 12c. In all other cases you will enter on line 13 the smaller of line 9 or line 12a.

U.S. Citizens Employed by Foreign Governments or International Organizations

You are subject to the self-employment tax if you are a U.S. citizen employed in the United States, Puerto Rico, Guam, American Samoa, Northern Mariana Islands, or the Virgin Islands, by a foreign government, and in certain cases, by a wholly-owned instrumentality of a foreign government or by an international organization organized under the International Organizations Immunities Act. Report income from this employment on Schedule SE, line 2. If you are employed by a foreign government or an international organization in a country other than those listed, you are not subject to self-employment tax.

Self-Employed U.S. Citizens or Resident Aliens Living Outside the United States

If you are a self-employed U.S. citizen or resident alien living outside the United States, you are generally subject to the self-employment tax. Your foreign earnings from self-employment may be reduced by the deduction for certain foreign housing costs. However, you may not reduce your foreign earnings from self-employment by your foreign earned income exclusion.

Specific Instructions

Name of Self-Employed Person. Enter the name and social security number of the self-employed person as it appears on that person's social security card.

Part I

Regular Computation of Net Earnings From Self-Employment

Income Not Included in Net Earnings From Self-Employment

- Salaries, fees, etc., subject to social security tax that you received for performing services as an employee, including services performed as a public official (except as a fee basis government employee as explained under **Other Income Included in Net Earnings From Self-Employment**) or as an employee or employee representative under the railroad retirement system.
- Income you received as a retired partner under a written partnership plan that provides for lifelong periodic retirement payments if you had no other interest in the partnership and did not perform services for it during the year.
- Real estate rentals, unless received in the course of a trade or business as a real estate dealer. These include cash and crop shares received from a tenant or sharefarmer. You should report these amounts on Schedule E, Part I.
- Dividends on shares of stock and interest on bonds, notes, etc., unless received in the course of your trade or business as a dealer in stocks or securities.
- Gain or loss from:

a. the sale or exchange of a capital asset;

b. the sale, exchange, involuntary conversion, or other disposition of property, unless the property is stock in trade or other property that would be includible in inventory, or held primarily for sale to customers in the ordinary course of the business; or

c. certain transactions in timber, coal, or domestic iron ore.

- Net operating losses from other years.

Other Income Included in Net Earnings From Self-Employment

- Rental income from a farm if the rental arrangement provides for material participation by the landlord and, as landlord, you participated materially in the production or management of the production of farm products on this land. This income is farm earnings. (To determine whether you participated materially in farm management or production, do not consider the activities of any agent who acted for you.)
- Cash or a payment in kind received from the Department of Agriculture for participation in a land diversion program.
- Payments for the use of rooms or other space, such as rooms in hotels, boarding houses, tourist camps, or homes, when substantial services are also provided.
- Payments you received for space in parking lots, trailer parks, warehouses, or storage garages.
- Income you received from the retail sale of newspapers and magazines if you are 18 or over and kept the profits.
- Income you received as a crew member of a fishing vessel with a crew of normally less than 10 individuals. See **Publication 595,** Tax Guide for Commercial Fishermen, for more information.
- Fees you received for services performed as a state or local government employee provided you are compensated solely on a fee basis and the position is not covered under a Federal-State social security coverage agreement.
- Interest received in the course of any trade or business, such as interest on notes or accounts receivable.
- The rental value of a home or an allowance for a home furnished you if you are a minister or a member of a religious order.
- The value of meals and lodging provided to you for the convenience of your employer if you are a minister or member of a religious order.
- Director's fees and other payments received by a director of a corporation for services as a director.
- Recapture amounts under sections 179 and 280F that were included in gross income because the business use of the property used in your trade or business dropped to 50% or less. (Do not include amounts recaptured on the disposition of property.) See **Form 4797,** Gains and Losses From Sales or Exchanges of Assets Used in a Trade or Business and Involuntary Conversions, for more information.
- Fiduciaries' fees received by professional fiduciaries. Also, nonprofessional fiduciaries if the fees relate to active participation in the operation of the estate's trade or business or the facts indicate the fiduciary manages an estate that requires extensive management activities over a long period of time.

Option and commodity dealers engaged in trading section 1256 contracts, see section 1402(i) to determine net earnings from self-employment.

Lines 1 and 2.—Exclude from lines 1 and 2 any income or expense not included in figuring net earnings from self-employment and attach an explanation. If you are a partner, adjust lines 1 and 2 for any expense deduction for recovery property (section 179) claimed, oil or gas depletion, or unreimbursed partnership expenses.

If you deposited earnings into a capital construction fund established under the Merchant Marine Act of 1936, see Publication 595.

If you are a duly ordained minister who is an employee of a church and you are subject to self-employment tax, the unreimbursed business expenses that you incurred in performing your services as an employee of the church (allowed only as an itemized deduction) are deducted from your self-employment earnings in figuring your self-employment tax. For more information, see Publication 517.

Part II

Optional Method for Figuring Net Earnings From Farm Self-Employment

If your gross farm income for the year was not more than $2,400, you can report two-thirds of your gross farm income instead of your actual net earnings from farming.

If your gross farm income was more than $2,400, and your net farm profits were less than $1,600, you can report $1,600 on line 4.

This method can be used to increase or decrease net farm earnings, even if the farming operation resulted in a loss. There is no limit on how many times you can elect this optional method. If you use this method, you must apply it to all farm earnings from self-employment for the year. You may change the method (from actual net to optional net or the reverse) after you file your return.

For a farm partnership, your share of gross income is figured according to the partnership agreement. With guaranteed payments, your share of the partnership's gross income is your guaranteed payment plus your share of the gross income after it is reduced by all guaranteed payments of the partnership. Limited partners should include only guaranteed payments.

Optional Method for Figuring Net Earnings From Nonfarm Self-Employment

You may be able to use an optional method to figure your net earnings from nonfarm self-employment if your net nonfarm profits are less than $1,600 and less than two-thirds of your gross nonfarm income.

You may use this optional method if you are regularly self-employed or regularly a member of a partnership. You meet this requirement if you had actual net earnings from self-employment of $400 or more (including your distributive share of the income or loss from any partnership of which you are a member) from nonfarm and farm businesses in at least 2 of the 3 years immediately before the year for which you use the nonfarm option.

You may report on line 6 two-thirds of your gross nonfarm income (but not more than $1,600) as your net earnings from self-employment, but you may not report less than your actual net earnings from nonfarm self-employment.

For a nonfarm partnership, your share of gross income is figured according to the partnership agreement. With guaranteed payments, your share of the partnership's gross income is your guaranteed payment plus your share of the gross income after it is reduced by all guaranteed payments of the partnership. Limited partners should include only guaranteed payments.

The limit for the optional method for nonfarm self-employment is 5 years. The 5 years need not be consecutive.

Using Both Optional Methods

If you have both nonfarm and farm income, you may only use the nonfarm optional method if your actual net earnings from nonfarm self-employment are less than $1,600. In all combined cases, your net nonfarm profits must be less than two-thirds of your gross nonfarm income to use the nonfarm option. If you qualify to use both options, you may report less than actual total net earnings from farm and nonfarm income, but not less than actual net earnings from nonfarm self-employment alone.

If you use both options to figure net earnings from self-employment, your maximum combined total of net earnings from self-employment for any tax year cannot be more than $1,600.

Line 4

Enter the smaller of:

- two-thirds (⅔) of the total gross income from all Schedules F, line 12, and Schedules K-1 (Form 1065), line 13b; or
- $1,600.

Line 6

Enter the smallest of:

- $1,600; or
- two-thirds (⅔) of the total gross income from all Schedules C, line 5, plus your distributive share of gross income from all nonfarm partnerships, Schedules K-1 (Form 1065), line 13c; or
- the amount on line 5 if you also had farm income and elect the farm optional method.

Part III

Computation of Social Security Self-Employment Tax

Line 11a

If you are a U.S. Government employee whose pay is subject **ONLY** to the 1.35% hospital insurance benefits tax (Medicare), do **NOT** include this pay as social security wages on Schedule SE, line 11a. Social security wages entered on line 11a are wages subject to the old-age, survivors, and disability insurance tax in addition to the Medicare tax.

Note: *Also see the instructions for Form 1040, line 63, to see if you should file* ***Form 4469,*** *Computation of Excess Hospital Insurance Benefits Tax Credit.*

Figure your self-employment tax using the rate below line 13. Do not reduce the rate by the Medicare tax rate.

If you are a U. S. Government employee whose pay is subject **ONLY** to the 1.35% Medicare tax and your combined wages and self-employment earnings (lines 9, 11c, and 12b of Schedule SE) are in excess of $39,600, skip line 13 of Schedule SE and complete the worksheet below. Be sure to enter your "qualified" U.S. Government wages on line 12b of Schedule SE if you use this worksheet. "Qualified" U.S. Government wages are your Government wages that are subject only to the 1.35% Medicare tax.

Worksheet (Keep for your records)

1. Enter line 9 from Schedule SE . . 1. ________
2. Enter line 12a from Schedule SE . . . . 2. ________
3. Enter your "qualified" U.S. Government wages here and on line 12b of Schedule SE 3. ________
4. Subtract line 3 from line 2. (If zero or less, enter -0-.) 4. ________
5. Multiply the smaller of line 1 or line 2 by .0954 . . . . 5. ________
6. Multiply the smaller of line 1 or line 4 by .0226 . . . . 6. ________
7. Add lines 5 and 6. Enter on line 14 of Schedule SE and on Form 1040, line 51 . . . . 7. ________

Instructions for

Schedule F

Farm Income and Expenses

Changes You Should Note

Schedule F Has Been Revised for 1985. The detailed income items for cash and accrual method taxpayers have been eliminated, and the farm expenses are now listed in alphabetical order. In addition, there is a new line A where you must enter a code that identifies your principal agricultural activity. See the list of codes on page 2 of Schedule F.

Depreciation. For "passenger automobiles" placed in service after April 2, 1985, the depreciation deduction for each vehicle, including any section 179 deduction, is limited to $3,200 in the first year, and $4,800 in each succeeding year. These amounts are further reduced if your business use is less than 100%. See the instructions for **Form 4562,** Depreciation and Amortization, and **Publication 534,** Depreciation, for details.

If you have listed property (such as an automobile or light truck) that you placed in service in a prior year for which you claimed a depreciation deduction, and the business use percentage of the property decreased to 50% or less during 1985, you may have to recapture excess depreciation, including the section 179 expense deduction. See **Form 4797,** Gains and Losses From Sales or Exchanges of Assets Used in a Trade or Business and Involuntary Conversions, and its instructions for details.

New Reporting Information Required for Listed Property. For 1985, if you claim any expenses, including depreciation or lease payment deduction, for any listed property, you must complete Part III of Form 4562. See the instructions for Form 4562 and Publication 534 for details.

Purpose of Schedule

Use Schedule F to report farm income and expenses if you file Forms 1040, 1041, or 1065. Please get **Publication 225,** Farmer's Tax Guide, for additional information. It has samples of filled-in forms and schedules, and lists important dates that apply to farmers. You may also want to get Publication 534.

If you were required to make estimated tax payments in 1985 and you underpaid your estimated tax, you may be charged a penalty. However, you will not be charged a penalty if you meet the following tests:

- your gross farming or fishing income for 1984 or 1985 is at least two-thirds of your gross income, and
- you file your 1985 tax return and pay the tax due by March 3, 1986.

For more details, see Publication 225.

Do not report the following income on Schedule F:

- Rent you received that was based on farm production or crop shares if you did not materially participate in the operation or management of the farm. Report this income on **Form 4835** and **Schedule E (Form 1040).** It is not subject to self-employment tax. For more details, see Publication 225.
- Rent from your pasture land that is based on a flat charge. Report this income in Part I of Schedule E. However, report on line 11 of Schedule F pasture income received from taking care of someone else's livestock.
- Sales, exchanges, or involuntary conversions (other than casualties or thefts) of certain trade or business property. Report this income on **Form 4797.**
- Sales of livestock held for draft, breeding, sport, or dairy purposes. Report this income on Form 4797.

Use **Form 4684,** Casualties and Thefts, to report a casualty or theft involving farm business property, including livestock held for draft, breeding, sport, or dairy purposes.

If you received cash of more than $10,000 in one or more related transactions in the course of your farming business, you may have to file **Form 8300.**

Get **Publication 916** to see if you have to file information returns.

Which Parts To Use

Schedule F has 3 parts. The accounting method you used to record your farm income determines which parts you must use.

Under the **cash method,** you include all of your income in the year you actually get it. Generally, you deduct your expenses when you pay them. If you use the cash method, fill in Parts I and II.

Under the **accrual method,** you include your income in the year you earned it. It does not matter when you get it. You deduct your expenses when you incur them. If you use the accrual method, fill in Parts II and III.

Other rules also apply that determine the timing of deductions based on economic performance. See **Publication 538,** Accounting Periods and Methods, for details.

Agricultural Activity Code and Principal Product

Select one of the twelve major agricultural activity codes listed on page 2 of Schedule F and write it on line A. The code you select should represent the major farm activity from which you derive the largest amount of your income. **Field crop** pertains to the production of grains such as wheat, rice, feed corn, soybeans, barley, rye, and lentils; and nongrains such as cotton, tobacco, sugar, and Irish potatoes. **Horticultural specialty** includes the cultivation of ornamental floriculture and nursery products such as plants, shrubbery, bulbs, flowers, seed, and sod; and food crops grown under cover such as tomatoes, mushrooms, rhubarb, and fruit. **Animal specialty** includes the raising of pets, laboratory animals, such as dogs, cats, bees, snakes, and fish in captivity, except fish hatcheries.

On line B, write your principal crop or service for the current year that is included in the general farm activity code entered on line A.

Employer Identification (ID) Number

You need an employer ID number only if:

- you had a Keogh plan, or
- you were required to file an employment tax, excise tax, or alcohol, tobacco, or firearms tax return.

Payments in Kind

If you received (or constructively received) agricultural commodities under the Department of Agriculture's 1983 payment-in-kind (PIK) program, you do not have to report these commodities as income until the year they are sold or otherwise disposed of. In general, this rule applies only to commodities received for the 1983 crop year. However, this rule also applies to wheat received for the 1984 crop year. Your unadjusted basis in these commodities when you receive them is zero. See Publication 225 for more details. If you disposed of commodities received under the PIK program, check the appropriate boxes on Schedule F.

Part I

Farm Income

Cash Method

In Part I show the income you received for the items listed on lines 1 through 11. Count both the cash you actually or constructively received and the fair market value of goods or other property you received for these items.

Income is constructively received when it is credited to your account or set aside for you to use.

If you ran the farm yourself and received rents based on farm production or crop shares, report these rents as income on line 4.

Sales of Livestock Because of Drought. If you sold livestock because of a drought, you can choose to count the income from the sale in the year after the drought, instead of the year of the sale. You can do this **IF:**

- your main business is farming, **AND**
- you can show that you sold the livestock only because of the drought, **AND**
- your area qualified for Federal aid.

Lines 1 and 2

On line 1, show the amount you received from sales of livestock and other items you bought for resale. On line 2, show the cost or other basis of the livestock and other items.

Line 4

Show the amount you got from the sale of livestock, produce, grains, and other products you raised.

Lines 5a and 5b

If you received distributions from a cooperative in 1985, you should receive **Form 1099-PATR,** Statement for Recipients (Patrons) of Taxable Distributions Received From Cooperatives. On line 5a show your total distributions from cooperatives. This includes patronage dividends, nonpatronage dividends, per-unit retain allocations, and redemption of nonqualified notices and per-unit retain allocations.

Show patronage dividends you received in cash, and the dollar amount of qualified written notices of allocation. If you received property as patronage dividends, report the fair market value of the property as income. Include cash advances you received from a marketing cooperative. If you get per-unit retains in cash, show the amount of cash. If you get qualified per-unit retain certificates, show the stated dollar amount of the certificate.

You do not have to include as income patronage dividends from buying:

- Personal or family items.
- Capital assets.
- Depreciable assets you use in your business.

Enter these amounts on line 5b. If you do not report patronage dividends from these items as income, you must subtract the amount of the dividend from the cost or other basis of these items.

Lines 7a and 7b

Enter on line 7a cash you got as price support payments, diversion payments, and cost-share payments (sight drafts).

On line 7b, show the amounts the Department of Agriculture paid for materials, such as fertilizer or lime, or services, such as grading or constructing dams.

Line 8

Report Commodity Credit Corporation loans you received as income if:

- the commodities are forfeited to the Corporation instead of sold in the market, **OR**
- you choose to report the loan as income when you receive it. If you do this, attach a statement showing the details of the loan. You must continue to report these loans as income unless the IRS permits you to change your accounting method.

Line 9

In general, you must report crop insurance proceeds in the year you receive them.

However, you may choose to include crop insurance proceeds and certain disaster payments in income in the tax year after the year of damage if you can show that it is your practice to report income from these crops in the later tax year.

Line 10

Show the amount you were paid for the use of your farm machinery.

Line 11

Use this line to report income other than that shown on lines 1 through 10. For example, include the following income items on line 11.

- Barter income.
- State gasoline tax refund you got in 1985.
- The amount of credit for Federal tax on gasoline or other fuel claimed on your 1984 Form 1040.
- The amount of credit for alcohol used as a fuel that was entered on **Form 6478.**

Report the sale of commodity futures contracts on this line if they were made to protect you from price changes. These are a form of business insurance and are considered hedges. Enter any profit on line 11. If you had a loss in a closed futures contract, show it as a minus amount.

Caution: *For property acquired and hedging positions established, you must clearly identify on your books and records that the transaction was a hedging transaction.*

Purchase or sales contracts are not true hedges if they offset losses that already happened. If you bought or sold commodity futures with the hope of making a profit due to favorable price changes, do not report the profit or loss on this line. Report the gain or loss on **Form 6781,** Gains and Losses From Section 1256 Contracts and Straddles.

For more details, see Publication 225.

Part II

Farm Deductions

Cash and Accrual Method

Do not deduct:

- Personal or living expenses (such as taxes, insurance, or repairs on your home) that do not produce farm income.
- Expenses of raising anything you or your family used.
- The value of animals you raised that died.
- Loss of inventory.
- Personal losses.
- The cost of planting and growing citrus or almond groves before the close of the fourth tax year beginning with the tax year you plant them in their permanent grove. You must treat these items as part of the cost of the grove.

If you were repaid for any part of an expense, you must subtract the amount you were repaid from the deduction.

Farming Syndicates

A farming syndicate may be:

- a partnership, or
- any other noncorporate group, or
- an S corporation, **If**

a. the interests in the business have ever been for sale in a way that would require registration with any Federal or state agency, **or**

b. more than 35% of the loss during any tax year is spread between limited partners or limited entrepreneurs.

(A limited partner is one who can lose only the amount invested in the partnership; a limited entrepreneur is a person who does not take any active part in managing the business.)

If you are a farming syndicate, your deductions are limited as follows:

- Generally, you can deduct feed, seed, fertilizers, and other farm supplies only in the year you actually use them (or only in the year you can deduct them under your accounting method). However, if you bought supplies you could not use because of fire, storm, flood, disease, or other casualty, then you may deduct them in the year you bought them.
- You must spread the cost of poultry you bought to use in business (or to resell) over 12 months, or the useful life, whichever is less.
- You cannot deduct the cost of planting, cultivating, maintaining or developing groves, orchards, or vineyards, which produce fruit or nuts, before the tax year in which they produce commercial quantities. You must treat these costs as part of the cost of the grove.

Line 15

You can deduct what you spent to conserve soil or water, or to prevent erosion of your land. You can also deduct what you paid to a soil or water district for conservation expenses. Do not deduct more than 25% of your gross income from farming (excluding certain gains from selling assets such as farm machinery and land). If your conservation expenses are more than the limit, you can carry the excess over to following years.

Line 16

You can deduct depreciation of buildings, improvements, cars and trucks, machinery, and other farm equipment of a permanent nature.

Do not deduct depreciation on:

- your home, furniture, or other personal items,
- land,
- livestock you bought or raised for resale, or
- other property in your inventory.

Generally, you **MUST** use the Accelerated Cost Recovery System (ACRS) for all assets you place in service after December 31, 1980.

You may also choose under section 179 to expense part of the cost of certain depreciable property you bought in 1985 for use in your business. You may deduct a portion of the cost of recovery property that would otherwise qualify for investment credit. However, you may not depreciate or amortize the same costs. In general, for cars or other "listed property" placed in service in 1985, you may not take this deduction if the property is used 50% or less in your trade or business.

Figure your depreciation deduction, including the section 179 expense deduction, on **Form 4562,** Depreciation and Amortization. Enter on line 16 of Schedule F the amount from Form 4562, Part I. See **Depreciation** and **New Reporting Information Required for Listed Property** in "Changes You Should Note" on page 33.

Investment Credit. You may be able to take a credit for part of the cost of qualifying property used in your trade or business. To see if you qualify, get **Form 3468,** Computation of Investment Credit.

If you dispose of investment credit property before the end of its class life or life years, the business use percentage decreases, or the use of the property otherwise changes so that it no longer qualifies, you may have to refigure the credit. Get **Form 4255,** Recapture of Investment Credit, for details.

Line 17

Enter any amounts you paid to programs for your employees that are not a part of the plans on line 28. Examples are insurance, health, and welfare programs. Do not include here amounts paid for yourself or your family.

Line 18

If you use the cash method, show what you paid for feed to be consumed by your livestock in the year of payment. However, if the feed is to be consumed in a later tax year, the expenses might not be deductible in the year paid. See Publication 225 for more information on advance payments for feed.

Line 20

Do not include as freight paid the cost of transportation incurred in purchasing livestock held for resale. Instead, add these costs to the cost of the livestock, and deduct them when the livestock are sold.

Line 22

Enter only the amount of premiums for fire, storm, crop, and theft insurance for this year for your farm business assets. Do not include insurance on personal assets, or medical, health, or disability insurance on yourself or your family.

Line 23

Enter the amount you paid for farm labor. You can count the cost of boarding farm labor but not the value of any products they used from the farm. You can count only what you paid household help to care for farm laborers. Do not count the value of your own or your family's labor.

***Caution:** If you provided taxable fringe benefits to your employees, such as personal use of a car, do not deduct as farm labor the amount applicable to depreciation and other expenses claimed elsewhere.*

Enter on line 23b the jobs credit from **Form 5884.** Subtract line 23b from line 23a and enter the balance on line 23c. For more details, please get **Publication 906,** Jobs and Research Credits.

Line 24

Enter what you paid to clear land so you could farm it. Do not enter more than $5,000 or 25% of your taxable income from farming, whichever is less. (See Publication 225 for the definition of taxable income from farming for purposes of the limitation.)

If you choose to deduct land clearing expenses for 1985, you must attach a statement to your tax return. See Publication 225 for details on what you must include in this statement.

Line 25

Enter what you paid to rent machinery used on your farm.

Line 26

If you have a mortgage on your farm (real property), enter on line 26 the interest you paid to financial institutions. If you paid $600 or more of interest on this mortgage, you should receive **Form 1098,** Mortgage Interest Statement, or similar statement, showing the total interest received from you during 1985. You should receive this statement by January 31, 1986. If you and at least one other person (other than your spouse if you file a joint return) were liable for, and paid interest on, the mortgage and the other person received the Form 1098, attach a statement to your return showing the name and address of the person who received the Form 1098. In the right margin, next to line 26, write "see attached."

Line 27

Enter the interest on other loans related to this farm. If you prepaid interest in 1985 for years after 1985, include only the part that applies to 1985.

Line 28

Enter the amount you paid to pension, profit-sharing, or annuity plans for your employees. If the plan included you as an owner-employee, see the instructions for Schedule C, line 22, on page 29. Enter the amount you paid for yourself on Form 1040, line 27.

Line 29

Enter what you paid to rent pasture or farm land.

Line 30

Enter what you paid for repairs and upkeep of farm buildings (but not your home), machinery, and equipment. You can also include what you paid for tools of short life or small cost, such as shovels and rakes.

Line 34

You can deduct the following taxes:

- Real estate and personal property taxes on farm business assets.
- Social security taxes you paid to match what you are required to withhold from farm employees' wages.

Do not deduct:

- Federal income taxes.
- Estate and gift taxes.
- Taxes assessed to pay for improvements, such as paving and sewers.
- Taxes on your home or personal property.
- Other taxes not related to the farm business.

Line 35

Enter what you paid for gas, electricity, water, etc., for business use on the farm. Do not include personal utilities.

Line 37

Enter expenses not listed on another line, such as:

- Office supplies.
- Advertising.
- Car and truck expenses. You can deduct what it cost you to run your car or truck, or take the fixed mileage rate.

***Note:** If you claim any car or truck expenses, you must complete Part III of **Form 4562**, Depreciation and Amortization.*

The fixed rate is 21 cents a mile up to 15,000 miles, and 11 cents a mile for each mile after that. If you use more than one vehicle for business, you must use the actual cost. If you use the vehicle for both personal and farm purposes, show only the miles (or costs), which apply to farming.

For vehicles that have been fully depreciated, the rate is 11 cents a mile.

If you use the fixed rate, the vehicle is considered to have a useful life of 60,000 miles of business use at the maximum fixed mileage rate.

If you place a car or truck in service after December 31, 1980, and take the fixed mileage rate, you are treated as having elected to exclude this vehicle from ACRS.

For more details, get **Publication 463**, Travel, Entertainment, and Gift Expenses.

***Note:** If you use certain highway trucks, truck-trailers, tractor-trailers, or buses in your trade or business, you may have to pay a Federal highway use tax on these vehicles. Get **Form 2290**, Heavy Vehicle Use Tax Return, to see whether you are subject to the tax.*

- Any loss from this activity that was not allowed as a deduction last year because of the at-risk provisions. This is treated as a deduction allocable to this activity in 1985.
- Amortization of qualifying forestation and reforestation costs over an 84-month period.
- Amortization of certain business startup costs over a period of at least 60 months.

Use Form 4562 to figure your amortization deduction. Include on line 37 of Schedule F the amount of the deduction from Form 4562, Part II.

For more information on amortization, see **Publication 535,** Business Expenses.

Line 39

If you have a loss, go on to line 40 before entering your loss on line 39. If you fail to answer the question on line 40, processing of your tax return may be delayed.

Enter the net profit or deductible loss here and on Form 1040, line 19, and Schedule SE, Part I, line 1 (or Form 1041, line 5). Partnerships should stop here and enter the profit or loss on this line and on Form 1065, line 8.

Line 40

If you have (1) a loss from any farming activity that you engaged in as a trade or business or for the production of income, except the holding of real property (other than mineral property), and (2) you have amounts for which you are not at risk in the activity, use **Form 6198,** Computation of Deductible Loss From an Activity Described in Section 465(c), to determine the allowable loss to report on Schedule F.

Answer the question on line 40 "**YES**" if you have any amounts for which you are not at risk for this farm such as the following:

1. nonrecourse loans used to finance the activity, to acquire property used in the activity, or to acquire your interest in the activity unless they are secured by property not used in the activity; or

2. amounts protected against loss by a guarantee, stop-loss agreement, or similar arrangement; or

3. loans from someone who has an interest in the activity, other than as a creditor, or who is related, under section 168(e)(4), to a person (other than yourself) having such an interest; or

4. amounts contributed to the activity, or to your interest in the activity that is covered by:

- nonrecourse loans or protected against loss by a guarantee, stop-loss agreement, or similar arrangement, or
- loans from a person decribed in 3 above.

If you do not have any of these kinds of amounts for which you are not at risk in this business, then answer the question "**NO**" and enter your loss on line 39.

If you answered "**YES**" to the question on line 40, get Form 6198 to determine the amount of deductible loss and enter that amount on line 39. If your at-risk amount is zero or less, enter zero on line 39.

If, in addition to the amount that you report on Schedule F, you sell or otherwise dispose of (1) an asset used in an activity to which the at-risk rules apply, or (2) any part of your interest in an activity to which the at-risk rules apply, and you have amounts in the activity for which you are not at risk, see the instructions for Form 6198.

Any loss from this activity not allowed for 1985 is treated as a deduction allocable to the activity in 1986.

For more details, get **Publication 536,** Net Operating Losses and the At-Risk Limits. Also see Form 6198 and its instructions for more information.

Part III

Farm Income

Accrual Method

If you use the accrual method, report farm income when you earn it, not when you receive it. Generally, you must inventory your animals and crops if you use this method. See **Publication 538,** Accounting Periods and Methods, for exceptions, inventory methods, and how to change methods of accounting.

Line 41

Enter the amount you got from the sales of livestock, produce, grains, and other products you raised.

Lines 42 through 45

See instructions for Part I, lines 7, 8, 10, and 11.

1985 Tax Table

Your zero bracket amount has been built into the Tax Table.

Based on Taxable Income

For persons with taxable incomes of less than $50,000.

Example: Mr. and Mrs. Brown are filing a joint return. Their taxable income on line 37 of Form 1040 is $25,325. First, they find the $25,300-25,350 income line. Next, they find the column for married filing jointly and read down the column. The amount shown where the income line and filing status column meet is $3,545. This is the tax amount they must write on line 38 of their return.

At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—			
25,200	25,250	4,513	3,523	5,614	4,177
25,250	25,300	4,528	3,534	5,633	4,191
→ 25,300	25,350	4,543	3,545	5,652	4,205
25,350	25,400	4,558	3,556	5,671	4,219

If line 37 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—			
$0	$1,775	$0	$0	$0	$0
1,775	1,800	0	0	2	0
1,800	1,825	0	0	5	0
1,825	1,850	0	0	7	0
1,850	1,875	0	0	10	0
1,875	1,900	0	0	13	0
1,900	1,925	0	0	16	0
1,925	1,950	0	0	18	0
1,950	1,975	0	0	21	0
1,975	2,000	0	0	24	0
2,000					
2,000	2,025	0	0	27	0
2,025	2,050	0	0	29	0
2,050	2,075	0	0	32	0
2,075	2,100	0	0	35	0
2,100	2,125	0	0	38	0
2,125	2,150	0	0	40	0
2,150	2,175	0	0	43	0
2,175	2,200	0	0	46	0
2,200	2,225	0	0	49	0
2,225	2,250	0	0	51	0
2,250	2,275	0	0	54	0
2,275	2,300	0	0	57	0
2,300	2,325	0	0	60	0
2,325	2,350	0	0	62	0
2,350	2,375	0	0	65	0
2,375	2,400	0	0	68	0
2,400	2,425	2	0	71	2
2,425	2,450	5	0	73	5
2,450	2,475	8	0	76	8
2,475	2,500	11	0	79	11
2,500	2,525	13	0	82	13
2,525	2,550	16	0	84	16
2,550	2,575	19	0	87	19
2,575	2,600	22	0	90	22
2,600	2,625	24	0	93	24
2,625	2,650	27	0	95	27
2,650	2,675	30	0	98	30
2,675	2,700	33	0	101	33
2,700	2,725	35	0	104	35
2,725	2,750	38	0	106	38
2,750	2,775	41	0	109	41
2,775	2,800	44	0	112	44
2,800	2,825	46	0	115	46
2,825	2,850	49	0	117	49
2,850	2,875	52	0	120	52
2,875	2,900	55	0	123	55
2,900	2,925	57	0	126	57
2,925	2,950	60	0	129	60
2,950	2,975	63	0	132	63
2,975	3,000	66	0	135	66
3,000					
3,000	3,050	70	0	140	70
3,050	3,100	75	0	146	75
3,100	3,150	81	0	152	81
3,150	3,200	86	0	158	86
3,200	3,250	92	0	164	92
3,250	3,300	97	0	170	97
3,300	3,350	103	0	176	103
3,350	3,400	108	0	182	108
3,400	3,450	114	0	188	114
3,450	3,500	119	0	194	119
3,500	3,550	125	0	200	125
3,550	3,600	131	4	206	130
3,600	3,650	137	9	212	136
3,650	3,700	143	15	218	141
3,700	3,750	149	20	224	147
3,750	3,800	155	26	230	152
3,800	3,850	161	31	236	158
3,850	3,900	167	37	242	163
3,900	3,950	173	42	248	169
3,950	4,000	179	48	254	174
4,000					
4,000	4,050	185	53	261	180
4,050	4,100	191	59	268	185
4,100	4,150	197	64	275	191
4,150	4,200	203	70	282	196
4,200	4,250	209	75	289	202
4,250	4,300	215	81	296	207
4,300	4,350	221	86	303	213
4,350	4,400	227	92	310	218
4,400	4,450	233	97	317	224
4,450	4,500	239	103	324	229
4,500	4,550	245	108	331	235
4,550	4,600	251	114	338	240
4,600	4,650	258	119	345	246
4,650	4,700	265	125	352	252
4,700	4,750	272	130	359	258
4,750	4,800	279	136	366	264
4,800	4,850	286	141	373	270
4,850	4,900	293	147	380	276
4,900	4,950	300	152	387	282
4,950	5,000	307	158	394	288

* This column must also be used by a qualifying widow(er).

Continued on next page

1985 Tax Table—*Continued*

If line 37 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—			
5,000					
5,000	5,050	314	163	401	294
5,050	5,100	321	169	408	300
5,100	5,150	328	174	415	306
5,150	5,200	335	180	422	312
5,200	5,250	342	185	429	318
5,250	5,300	349	191	436	324
5,300	5,350	356	196	443	330
5,350	5,400	363	202	450	336
5,400	5,450	370	207	457	342
5,450	5,500	377	213	464	348
5,500	5,550	384	218	471	354
5,550	5,600	391	224	478	360
5,600	5,650	398	229	485	366
5,650	5,700	405	235	492	372
5,700	5,750	412	240	499	378
5,750	5,800	419	246	506	384
5,800	5,850	426	252	513	390
5,850	5,900	433	258	520	396
5,900	5,950	440	264	527	402
5,950	6,000	447	270	534	408
6,000					
6,000	6,050	454	276	541	414
6,050	6,100	461	282	548	420
6,100	6,150	468	288	555	426
6,150	6,200	475	294	562	432
6,200	6,250	482	300	570	438
6,250	6,300	489	306	578	444
6,300	6,350	496	312	586	450
6,350	6,400	503	318	594	456
6,400	6,450	510	324	602	462
6,450	6,500	517	330	610	468
6,500	6,550	524	336	618	474
6,550	6,600	531	342	626	480
6,600	6,650	538	348	634	486
6,650	6,700	545	354	642	492
6,700	6,750	552	360	650	498
6,750	6,800	559	366	658	505
6,800	6,850	566	372	666	512
6,850	6,900	574	378	674	519
6,900	6,950	581	384	682	526
6,950	7,000	589	390	690	533
7,000					
7,000	7,050	596	396	698	540
7,050	7,100	604	402	706	547
7,100	7,150	611	408	714	554
7,150	7,200	619	414	722	561
7,200	7,250	626	420	730	568
7,250	7,300	634	426	738	575
7,300	7,350	641	432	746	582
7,350	7,400	649	438	754	589
7,400	7,450	656	444	762	596
7,450	7,500	664	450	770	603
7,500	7,550	671	456	778	610
7,550	7,600	679	462	786	617
7,600	7,650	686	468	794	624
7,650	7,700	694	474	802	631
7,700	7,750	701	480	810	638
7,750	7,800	709	486	818	645
7,800	7,850	716	492	826	652
7,850	7,900	724	498	834	659
7,900	7,950	731	505	842	666
7,950	8,000	739	512	850	673

If line 37 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—			
8,000					
8,000	8,050	746	519	858	680
8,050	8,100	754	526	866	687
8,100	8,150	761	533	874	694
8,150	8,200	769	540	882	701
8,200	8,250	776	547	890	708
8,250	8,300	784	554	898	715
8,300	8,350	791	561	906	722
8,350	8,400	799	568	915	729
8,400	8,450	806	575	924	736
8,450	8,500	814	582	933	743
8,500	8,550	821	589	942	750
8,550	8,600	829	596	951	757
8,600	8,650	836	603	960	764
8,650	8,700	844	610	969	771
8,700	8,750	851	617	978	778
8,750	8,800	859	624	987	785
8,800	8,850	866	631	996	792
8,850	8,900	874	638	1,005	799
8,900	8,950	882	645	1,014	806
8,950	9,000	890	652	1,023	813
9,000					
9,000	9,050	898	659	1,032	820
9,050	9,100	906	666	1,041	827
9,100	9,150	914	673	1,050	836
9,150	9,200	922	680	1,059	844
9,200	9,250	930	687	1,068	853
9,250	9,300	938	694	1,077	861
9,300	9,350	946	701	1,086	870
9,350	9,400	954	708	1,095	878
9,400	9,450	962	715	1,104	887
9,450	9,500	970	722	1,113	895
9,500	9,550	978	729	1,122	904
9,550	9,600	986	736	1,131	912
9,600	9,650	994	743	1,140	921
9,650	9,700	1,002	750	1,149	929
9,700	9,750	1,010	757	1,158	938
9,750	9,800	1,018	764	1,167	946
9,800	9,850	1,026	771	1,176	955
9,850	9,900	1,034	778	1,185	963
9,900	9,950	1,042	785	1,194	972
9,950	10,000	1,050	792	1,203	980
10,000					
10,000	10,050	1,058	799	1,212	989
10,050	10,100	1,066	806	1,221	997
10,100	10,150	1,074	813	1,230	1,006
10,150	10,200	1,082	820	1,239	1,014
10,200	10,250	1,090	827	1,248	1,023
10,250	10,300	1,098	834	1,257	1,031
10,300	10,350	1,106	841	1,266	1,040
10,350	10,400	1,114	848	1,275	1,048
10,400	10,450	1,122	855	1,284	1,057
10,450	10,500	1,130	862	1,293	1,065
10,500	10,550	1,138	869	1,302	1,074
10,550	10,600	1,146	876	1,313	1,082
10,600	10,650	1,154	883	1,324	1,091
10,650	10,700	1,162	890	1,335	1,099
10,700	10,750	1,170	897	1,346	1,108
10,750	10,800	1,178	904	1,357	1,116
10,800	10,850	1,186	911	1,368	1,125
10,850	10,900	1,194	918	1,379	1,133
10,900	10,950	1,202	925	1,390	1,142
10,950	11,000	1,210	932	1,401	1,150

If line 37 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—			
11,000					
11,000	11,050	1,218	939	1,412	1,159
11,050	11,100	1,226	946	1,423	1,167
11,100	11,150	1,234	953	1,434	1,176
11,150	11,200	1,242	960	1,445	1,184
11,200	11,250	1,250	967	1,456	1,193
11,250	11,300	1,259	974	1,467	1,201
11,300	11,350	1,268	981	1,478	1,210
11,350	11,400	1,277	988	1,489	1,218
11,400	11,450	1,286	995	1,500	1,227
11,450	11,500	1,295	1,002	1,511	1,235
11,500	11,550	1,304	1,009	1,522	1,244
11,550	11,600	1,313	1,016	1,533	1,252
11,600	11,650	1,322	1,023	1,544	1,261
11,650	11,700	1,331	1,030	1,555	1,269
11,700	11,750	1,340	1,037	1,566	1,278
11,750	11,800	1,349	1,044	1,577	1,286
11,800	11,850	1,358	1,051	1,588	1,295
11,850	11,900	1,367	1,058	1,599	1,303
11,900	11,950	1,376	1,065	1,610	1,312
11,950	12,000	1,385	1,072	1,621	1,320
12,000					
12,000	12,050	1,394	1,079	1,632	1,329
12,050	12,100	1,403	1,086	1,643	1,337
12,100	12,150	1,412	1,093	1,654	1,346
12,150	12,200	1,421	1,100	1,665	1,354
12,200	12,250	1,430	1,107	1,676	1,363
12,250	12,300	1,439	1,114	1,687	1,371
12,300	12,350	1,448	1,121	1,698	1,380
12,350	12,400	1,457	1,128	1,709	1,389
12,400	12,450	1,466	1,135	1,720	1,398
12,450	12,500	1,475	1,143	1,731	1,407
12,500	12,550	1,484	1,151	1,742	1,416
12,550	12,600	1,493	1,159	1,753	1,425
12,600	12,650	1,502	1,167	1,764	1,434
12,650	12,700	1,511	1,175	1,775	1,443
12,700	12,750	1,520	1,183	1,786	1,452
12,750	12,800	1,529	1,191	1,797	1,461
12,800	12,850	1,538	1,199	1,809	1,470
12,850	12,900	1,547	1,207	1,822	1,479
12,900	12,950	1,556	1,215	1,834	1,488
12,950	13,000	1,565	1,223	1,847	1,497
13,000					
13,000	13,050	1,574	1,231	1,859	1,506
13,050	13,100	1,583	1,239	1,872	1,515
13,100	13,150	1,592	1,247	1,884	1,524
13,150	13,200	1,601	1,255	1,897	1,533
13,200	13,250	1,610	1,263	1,909	1,542
13,250	13,300	1,619	1,271	1,922	1,551
13,300	13,350	1,628	1,279	1,934	1,560
13,350	13,400	1,637	1,287	1,947	1,569
13,400	13,450	1,646	1,295	1,959	1,578
13,450	13,500	1,656	1,303	1,972	1,587
13,500	13,550	1,666	1,311	1,984	1,596
13,550	13,600	1,676	1,319	1,997	1,605
13,600	13,650	1,686	1,327	2,009	1,614
13,650	13,700	1,696	1,335	2,022	1,623
13,700	13,750	1,706	1,343	2,034	1,632
13,750	13,800	1,716	1,351	2,047	1,641
13,800	13,850	1,726	1,359	2,059	1,650
13,850	13,900	1,736	1,367	2,072	1,659
13,900	13,950	1,746	1,375	2,084	1,668
13,950	14,000	1,756	1,383	2,097	1,677

* This column must also be used by a qualifying widow(er).

Continued on next page

1985 Tax Table—*Continued*

If line 37 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—			
14,000					
14,000	**14,050**	1,766	1,391	2,109	1,686
14,050	**14,100**	1,776	1,399	2,122	1,695
14,100	**14,150**	1,786	1,407	2,134	1,704
14,150	**14,200**	1,796	1,415	2,147	1,713
14,200	**14,250**	1,806	1,423	2,159	1,722
14,250	**14,300**	1,816	1,431	2,172	1,731
14,300	**14,350**	1,826	1,439	2,184	1,740
14,350	**14,400**	1,836	1,447	2,197	1,749
14,400	**14,450**	1,846	1,455	2,209	1,758
14,450	**14,500**	1,856	1,463	2,222	1,767
14,500	**14,550**	1,866	1,471	2,234	1,776
14,550	**14,600**	1,876	1,479	2,247	1,785
14,600	**14,650**	1,886	1,487	2,259	1,794
14,650	**14,700**	1,896	1,495	2,272	1,803
14,700	**14,750**	1,906	1,503	2,284	1,812
14,750	**14,800**	1,916	1,511	2,297	1,821
14,800	**14,850**	1,926	1,519	2,309	1,830
14,850	**14,900**	1,936	1,527	2,322	1,839
14,900	**14,950**	1,946	1,535	2,334	1,848
14,950	**15,000**	1,956	1,543	2,347	1,857
15,000					
15,000	**15,050**	1,966	1,551	2,359	1,866
15,050	**15,100**	1,976	1,559	2,372	1,875
15,100	**15,150**	1,986	1,567	2,384	1,884
15,150	**15,200**	1,996	1,575	2,397	1,893
15,200	**15,250**	2,006	1,583	2,409	1,902
15,250	**15,300**	2,016	1,591	2,422	1,911
15,300	**15,350**	2,026	1,599	2,434	1,920
15,350	**15,400**	2,036	1,607	2,447	1,929
15,400	**15,450**	2,046	1,615	2,459	1,938
15,450	**15,500**	2,056	1,623	2,472	1,947
15,500	**15,550**	2,066	1,631	2,484	1,956
15,550	**15,600**	2,076	1,639	2,497	1,965
15,600	**15,650**	2,086	1,647	2,511	1,975
15,650	**15,700**	2,098	1,655	2,525	1,985
15,700	**15,750**	2,109	1,663	2,539	1,995
15,750	**15,800**	2,121	1,671	2,553	2,005
15,800	**15,850**	2,132	1,679	2,567	2,015
15,850	**15,900**	2,144	1,687	2,581	2,025
15,900	**15,950**	2,155	1,695	2,595	2,035
15,950	**16,000**	2,167	1,703	2,609	2,045
16,000					
16,000	**16,050**	2,178	1,711	2,623	2,055
16,050	**16,100**	2,190	1,719	2,637	2,065
16,100	**16,150**	2,201	1,727	2,651	2,075
16,150	**16,200**	2,213	1,735	2,665	2,085
16,200	**16,250**	2,224	1,743	2,679	2,095
16,250	**16,300**	2,236	1,751	2,693	2,105
16,300	**16,350**	2,247	1,759	2,707	2,115
16,350	**16,400**	2,259	1,767	2,721	2,125
16,400	**16,450**	2,270	1,775	2,735	2,135
16,450	**16,500**	2,282	1,783	2,749	2,145
16,500	**16,550**	2,293	1,791	2,763	2,155
16,550	**16,600**	2,305	1,799	2,777	2,165
16,600	**16,650**	2,316	1,807	2,791	2,175
16,650	**16,700**	2,328	1,816	2,805	2,185
16,700	**16,750**	2,339	1,825	2,819	2,195
16,750	**16,800**	2,351	1,834	2,833	2,205
16,800	**16,850**	2,362	1,843	2,847	2,215
16,850	**16,900**	2,374	1,852	2,861	2,225
16,900	**16,950**	2,385	1,861	2,875	2,235
16,950	**17,000**	2,397	1,870	2,889	2,245
17,000					
17,000	**17,050**	2,408	1,879	2,903	2,255
17,050	**17,100**	2,420	1,888	2,917	2,265
17,100	**17,150**	2,431	1,897	2,931	2,275
17,150	**17,200**	2,443	1,906	2,945	2,285
17,200	**17,250**	2,454	1,915	2,959	2,295
17,250	**17,300**	2,466	1,924	2,973	2,305
17,300	**17,350**	2,477	1,933	2,987	2,315
17,350	**17,400**	2,489	1,942	3,001	2,325
17,400	**17,450**	2,500	1,951	3,015	2,335
17,450	**17,500**	2,512	1,960	3,029	2,345
17,500	**17,550**	2,523	1,969	3,043	2,355
17,550	**17,600**	2,535	1,978	3,057	2,365
17,600	**17,650**	2,546	1,987	3,071	2,375
17,650	**17,700**	2,558	1,996	3,085	2,385
17,700	**17,750**	2,569	2,005	3,099	2,395
17,750	**17,800**	2,581	2,014	3,113	2,405
17,800	**17,850**	2,592	2,023	3,127	2,415
17,850	**17,900**	2,604	2,032	3,141	2,425
17,900	**17,950**	2,615	2,041	3,155	2,435
17,950	**18,000**	2,627	2,050	3,169	2,445
18,000					
18,000	**18,050**	2,638	2,059	3,183	2,455
18,050	**18,100**	2,650	2,068	3,197	2,465
18,100	**18,150**	2,661	2,077	3,211	2,475
18,150	**18,200**	2,673	2,086	3,225	2,485
18,200	**18,250**	2,684	2,095	3,239	2,495
18,250	**18,300**	2,696	2,104	3,253	2,505
18,300	**18,350**	2,707	2,113	3,268	2,515
18,350	**18,400**	2,719	2,122	3,284	2,525
18,400	**18,450**	2,730	2,131	3,301	2,535
18,450	**18,500**	2,742	2,140	3,317	2,545
18,500	**18,550**	2,753	2,149	3,334	2,555
18,550	**18,600**	2,765	2,158	3,350	2,565
18,600	**18,650**	2,776	2,167	3,367	2,575
18,650	**18,700**	2,788	2,176	3,383	2,585
18,700	**18,750**	2,799	2,185	3,400	2,595
18,750	**18,800**	2,811	2,194	3,416	2,605
18,800	**18,850**	2,822	2,203	3,433	2,615
18,850	**18,900**	2,834	2,212	3,449	2,625
18,900	**18,950**	2,845	2,221	3,466	2,635
18,950	**19,000**	2,858	2,230	3,482	2,646
19,000					
19,000	**19,050**	2,871	2,239	3,499	2,658
19,050	**19,100**	2,884	2,248	3,515	2,670
19,100	**19,150**	2,897	2,257	3,532	2,682
19,150	**19,200**	2,910	2,266	3,548	2,694
19,200	**19,250**	2,923	2,275	3,565	2,706
19,250	**19,300**	2,936	2,284	3,581	2,718
19,300	**19,350**	2,949	2,293	3,598	2,730
19,350	**19,400**	2,962	2,302	3,614	2,742
19,400	**19,450**	2,975	2,311	3,631	2,754
19,450	**19,500**	2,988	2,320	3,647	2,766
19,500	**19,550**	3,001	2,329	3,664	2,778
19,550	**19,600**	3,014	2,338	3,680	2,790
19,600	**19,650**	3,027	2,347	3,697	2,802
19,650	**19,700**	3,040	2,356	3,713	2,814
19,700	**19,750**	3,053	2,365	3,730	2,826
19,750	**19,800**	3,066	2,374	3,746	2,838
19,800	**19,850**	3,079	2,383	3,763	2,850
19,850	**19,900**	3,092	2,392	3,779	2,862
19,900	**19,950**	3,105	2,401	3,796	2,874
19,950	**20,000**	3,118	2,410	3,812	2,886
20,000					
20,000	**20,050**	3,131	2,419	3,829	2,898
20,050	**20,100**	3,144	2,428	3,845	2,910
20,100	**20,150**	3,157	2,437	3,862	2,922
20,150	**20,200**	3,170	2,446	3,878	2,934
20,200	**20,250**	3,183	2,455	3,895	2,946
20,250	**20,300**	3,196	2,464	3,911	2,958
20,300	**20,350**	3,209	2,473	3,928	2,970
20,350	**20,400**	3,222	2,482	3,944	2,982
20,400	**20,450**	3,235	2,491	3,961	2,994
20,450	**20,500**	3,248	2,500	3,977	3,006
20,500	**20,550**	3,261	2,509	3,994	3,018
20,550	**20,600**	3,274	2,518	4,010	3,030
20,600	**20,650**	3,287	2,527	4,027	3,042
20,650	**20,700**	3,300	2,536	4,043	3,054
20,700	**20,750**	3,313	2,545	4,060	3,066
20,750	**20,800**	3,326	2,554	4,076	3,078
20,800	**20,850**	3,339	2,563	4,093	3,090
20,850	**20,900**	3,352	2,572	4,109	3,102
20,900	**20,950**	3,365	2,581	4,126	3,114
20,950	**21,000**	3,378	2,590	4,142	3,126
21,000					
21,000	**21,050**	3,391	2,599	4,159	3,138
21,050	**21,100**	3,404	2,610	4,175	3,150
21,100	**21,150**	3,417	2,621	4,192	3,162
21,150	**21,200**	3,430	2,632	4,208	3,174
21,200	**21,250**	3,443	2,643	4,225	3,186
21,250	**21,300**	3,456	2,654	4,241	3,198
21,300	**21,350**	3,469	2,665	4,258	3,210
21,350	**21,400**	3,482	2,676	4,274	3,222
21,400	**21,450**	3,495	2,687	4,291	3,234
21,450	**21,500**	3,508	2,698	4,307	3,246
21,500	**21,550**	3,521	2,709	4,324	3,258
21,550	**21,600**	3,534	2,720	4,340	3,270
21,600	**21,650**	3,547	2,731	4,357	3,282
21,650	**21,700**	3,560	2,742	4,373	3,294
21,700	**21,750**	3,573	2,753	4,390	3,306
21,750	**21,800**	3,586	2,764	4,406	3,318
21,800	**21,850**	3,599	2,775	4,423	3,330
21,850	**21,900**	3,612	2,786	4,439	3,342
21,900	**21,950**	3,625	2,797	4,456	3,354
21,950	**22,000**	3,638	2,808	4,472	3,366
22,000					
22,000	**22,050**	3,651	2,819	4,489	3,378
22,050	**22,100**	3,664	2,830	4,505	3,390
22,100	**22,150**	3,677	2,841	4,522	3,402
22,150	**22,200**	3,690	2,852	4,538	3,414
22,200	**22,250**	3,703	2,863	4,555	3,426
22,250	**22,300**	3,716	2,874	4,571	3,438
22,300	**22,350**	3,729	2,885	4,588	3,450
22,350	**22,400**	3,742	2,896	4,604	3,462
22,400	**22,450**	3,755	2,907	4,621	3,474
22,450	**22,500**	3,768	2,918	4,637	3,486
22,500	**22,550**	3,781	2,929	4,654	3,498
22,550	**22,600**	3,794	2,940	4,670	3,510
22,600	**22,650**	3,807	2,951	4,687	3,522
22,650	**22,700**	3,820	2,962	4,703	3,534
22,700	**22,750**	3,833	2,973	4,720	3,546
22,750	**22,800**	3,846	2,984	4,736	3,558
22,800	**22,850**	3,859	2,995	4,753	3,570
22,850	**22,900**	3,872	3,006	4,769	3,582
22,900	**22,950**	3,885	3,017	4,786	3,594
22,950	**23,000**	3,898	3,028	4,802	3,606

*** This column must also be used by a qualifying widow(er).**

Continued on next page

1985 Tax Table—*Continued*

If line 37 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—			
23,000					
23,000	**23,050**	3,911	3,039	4,819	3,618
23,050	**23,100**	3,924	3,050	4,835	3,630
23,100	**23,150**	3,937	3,061	4,852	3,642
23,150	**23,200**	3,950	3,072	4,868	3,654
23,200	**23,250**	3,963	3,083	4,885	3,666
23,250	**23,300**	3,976	3,094	4,901	3,678
23,300	**23,350**	3,989	3,105	4,918	3,690
23,350	**23,400**	4,002	3,116	4,934	3,702
23,400	**23,450**	4,015	3,127	4,951	3,714
23,450	**23,500**	4,028	3,138	4,967	3,726
23,500	**23,550**	4,041	3,149	4,984	3,738
23,550	**23,600**	4,054	3,160	5,000	3,750
23,600	**23,650**	4,067	3,171	5,017	3,762
23,650	**23,700**	4,080	3,182	5,033	3,774
23,700	**23,750**	4,093	3,193	5,050	3,786
23,750	**23,800**	4,106	3,204	5,066	3,798
23,800	**23,850**	4,119	3,215	5,083	3,810
23,850	**23,900**	4,132	3,226	5,101	3,822
23,900	**23,950**	4,145	3,237	5,120	3,834
23,950	**24,000**	4,158	3,248	5,139	3,846
24,000					
24,000	**24,050**	4,171	3,259	5,158	3,858
24,050	**24,100**	4,184	3,270	5,177	3,870
24,100	**24,150**	4,197	3,281	5,196	3,882
24,150	**24,200**	4,210	3,292	5,215	3,894
24,200	**24,250**	4,223	3,303	5,234	3,906
24,250	**24,300**	4,236	3,314	5,253	3,918
24,300	**24,350**	4,249	3,325	5,272	3,930
24,350	**24,400**	4,262	3,336	5,291	3,942
24,400	**24,450**	4,275	3,347	5,310	3,954
24,450	**24,500**	4,288	3,358	5,329	3,967
24,500	**24,550**	4,303	3,369	5,348	3,981
24,550	**24,600**	4,318	3,380	5,367	3,995
24,600	**24,650**	4,333	3,391	5,386	4,009
24,650	**24,700**	4,348	3,402	5,405	4,023
24,700	**24,750**	4,363	3,413	5,424	4,037
24,750	**24,800**	4,378	3,424	5,443	4,051
24,800	**24,850**	4,393	3,435	5,462	4,065
24,850	**24,900**	4,408	3,446	5,481	4,079
24,900	**24,950**	4,423	3,457	5,500	4,093
24,950	**25,000**	4,438	3,468	5,519	4,107
25,000					
25,000	**25,050**	4,453	3,479	5,538	4,121
25,050	**25,100**	4,468	3,490	5,557	4,135
25,100	**25,150**	4,483	3,501	5,576	4,149
25,150	**25,200**	4,498	3,512	5,595	4,163
25,200	**25,250**	4,513	3,523	5,614	4,177
25,250	**25,300**	4,528	3,534	5,633	4,191
25,300	**25,350**	4,543	3,545	5,652	4,205
25,350	**25,400**	4,558	3,556	5,671	4,219
25,400	**25,450**	4,573	3,567	5,690	4,233
25,450	**25,500**	4,588	3,578	5,709	4,247
25,500	**25,550**	4,603	3,589	5,728	4,261
25,550	**25,600**	4,618	3,600	5,747	4,275
25,600	**25,650**	4,633	3,612	5,766	4,289
25,650	**25,700**	4,648	3,624	5,785	4,303
25,700	**25,750**	4,663	3,637	5,804	4,317
25,750	**25,800**	4,678	3,649	5,823	4,331
25,800	**25,850**	4,693	3,662	5,842	4,345
25,850	**25,900**	4,708	3,674	5,861	4,359
25,900	**25,950**	4,723	3,687	5,880	4,373
25,950	**26,000**	4,738	3,699	5,899	4,387
26,000					
26,000	**26,050**	4,753	3,712	5,918	4,401
26,050	**26,100**	4,768	3,724	5,937	4,415
26,100	**26,150**	4,783	3,737	5,956	4,429
26,150	**26,200**	4,798	3,749	5,975	4,443
26,200	**26,250**	4,813	3,762	5,994	4,457
26,250	**26,300**	4,828	3,774	6,013	4,471
26,300	**26,350**	4,843	3,787	6,032	4,485
26,350	**26,400**	4,858	3,799	6,051	4,499
26,400	**26,450**	4,873	3,812	6,070	4,513
26,450	**26,500**	4,888	3,824	6,089	4,527
26,500	**26,550**	4,903	3,837	6,108	4,541
26,550	**26,600**	4,918	3,849	6,127	4,555
26,600	**26,650**	4,933	3,862	6,146	4,569
26,650	**26,700**	4,948	3,874	6,165	4,583
26,700	**26,750**	4,963	3,887	6,184	4,597
26,750	**26,800**	4,978	3,899	6,203	4,611
26,800	**26,850**	4,993	3,912	6,222	4,625
26,850	**26,900**	5,008	3,924	6,241	4,639
26,900	**26,950**	5,023	3,937	6,260	4,653
26,950	**27,000**	5,038	3,949	6,279	4,667
27,000					
27,000	**27,050**	5,053	3,962	6,298	4,681
27,050	**27,100**	5,068	3,974	6,317	4,695
27,100	**27,150**	5,083	3,987	6,336	4,709
27,150	**27,200**	5,098	3,999	6,355	4,723
27,200	**27,250**	5,113	4,012	6,374	4,737
27,250	**27,300**	5,128	4,024	6,393	4,751
27,300	**27,350**	5,143	4,037	6,412	4,765
27,350	**27,400**	5,158	4,049	6,431	4,779
27,400	**27,450**	5,173	4,062	6,450	4,793
27,450	**27,500**	5,188	4,074	6,469	4,807
27,500	**27,550**	5,203	4,087	6,488	4,821
27,550	**27,600**	5,218	4,099	6,507	4,835
27,600	**27,650**	5,233	4,112	6,526	4,849
27,650	**27,700**	5,248	4,124	6,545	4,863
27,700	**27,750**	5,263	4,137	6,564	4,877
27,750	**27,800**	5,278	4,149	6,583	4,891
27,800	**27,850**	5,293	4,162	6,602	4,905
27,850	**27,900**	5,308	4,174	6,621	4,919
27,900	**27,950**	5,323	4,187	6,640	4,933
27,950	**28,000**	5,338	4,199	6,659	4,947
28,000					
28,000	**28,050**	5,353	4,212	6,678	4,961
28,050	**28,100**	5,368	4,224	6,697	4,975
28,100	**28,150**	5,383	4,237	6,716	4,989
28,150	**28,200**	5,398	4,249	6,735	5,003
28,200	**28,250**	5,413	4,262	6,754	5,017
28,250	**28,300**	5,428	4,274	6,773	5,031
28,300	**28,350**	5,443	4,287	6,792	5,045
28,350	**28,400**	5,458	4,299	6,811	5,059
28,400	**28,450**	5,473	4,312	6,830	5,073
28,450	**28,500**	5,488	4,324	6,849	5,087
28,500	**28,550**	5,503	4,337	6,868	5,101
28,550	**28,600**	5,518	4,349	6,887	5,115
28,600	**28,650**	5,533	4,362	6,906	5,129
28,650	**28,700**	5,548	4,374	6,925	5,143
28,700	**28,750**	5,563	4,387	6,944	5,157
28,750	**28,800**	5,578	4,399	6,963	5,171
28,800	**28,850**	5,593	4,412	6,982	5,185
28,850	**28,900**	5,608	4,424	7,001	5,199
28,900	**28,950**	5,623	4,437	7,020	5,213
28,950	**29,000**	5,638	4,449	7,039	5,227
29,000					
29,000	**29,050**	5,653	4,462	7,058	5,241
29,050	**29,100**	5,668	4,474	7,077	5,255
29,100	**29,150**	5,683	4,487	7,096	5,269
29,150	**29,200**	5,698	4,499	7,115	5,283
29,200	**29,250**	5,713	4,512	7,134	5,297
29,250	**29,300**	5,728	4,524	7,153	5,311
29,300	**29,350**	5,743	4,537	7,172	5,325
29,350	**29,400**	5,758	4,549	7,191	5,339
29,400	**29,450**	5,773	4,562	7,210	5,353
29,450	**29,500**	5,788	4,574	7,229	5,367
29,500	**29,550**	5,803	4,587	7,248	5,381
29,550	**29,600**	5,818	4,599	7,267	5,395
29,600	**29,650**	5,833	4,612	7,286	5,409
29,650	**29,700**	5,848	4,624	7,305	5,423
29,700	**29,750**	5,863	4,637	7,324	5,437
29,750	**29,800**	5,878	4,649	7,343	5,451
29,800	**29,850**	5,893	4,662	7,362	5,465
29,850	**29,900**	5,908	4,674	7,381	5,479
29,900	**29,950**	5,923	4,687	7,400	5,493
29,950	**30,000**	5,938	4,699	7,419	5,507
30,000					
30,000	**30,050**	5,955	4,712	7,438	5,523
30,050	**30,100**	5,972	4,724	7,457	5,539
30,100	**30,150**	5,989	4,737	7,476	5,555
30,150	**30,200**	6,006	4,749	7,495	5,571
30,200	**30,250**	6,023	4,762	7,514	5,587
30,250	**30,300**	6,040	4,774	7,533	5,603
30,300	**30,350**	6,057	4,787	7,552	5,619
30,350	**30,400**	6,074	4,799	7,571	5,635
30,400	**30,450**	6,091	4,812	7,590	5,651
30,450	**30,500**	6,108	4,824	7,609	5,667
30,500	**30,550**	6,125	4,837	7,628	5,683
30,550	**30,600**	6,142	4,849	7,647	5,699
30,600	**30,650**	6,159	4,862	7,666	5,715
30,650	**30,700**	6,176	4,874	7,685	5,731
30,700	**30,750**	6,193	4,887	7,704	5,747
30,750	**30,800**	6,210	4,899	7,723	5,763
30,800	**30,850**	6,227	4,912	7,742	5,779
30,850	**30,900**	6,244	4,924	7,761	5,795
30,900	**30,950**	6,261	4,937	7,780	5,811
30,950	**31,000**	6,278	4,949	7,799	5,827
31,000					
31,000	**31,050**	6,295	4,962	7,818	5,843
31,050	**31,100**	6,312	4,974	7,837	5,859
31,100	**31,150**	6,329	4,987	7,856	5,875
31,150	**31,200**	6,346	5,001	7,875	5,891
31,200	**31,250**	6,363	5,015	7,894	5,907
31,250	**31,300**	6,380	5,029	7,915	5,923
31,300	**31,350**	6,397	5,043	7,936	5,939
31,350	**31,400**	6,414	5,057	7,957	5,955
31,400	**31,450**	6,431	5,071	7,978	5,971
31,450	**31,500**	6,448	5,085	7,999	5,987
31,500	**31,550**	6,465	5,099	8,020	6,003
31,550	**31,600**	6,482	5,113	8,041	6,019
31,600	**31,650**	6,499	5,127	8,062	6,035
31,650	**31,700**	6,516	5,141	8,083	6,051
31,700	**31,750**	6,533	5,155	8,104	6,067
31,750	**31,800**	6,550	5,169	8,125	6,083
31,800	**31,850**	6,567	5,183	8,146	6,099
31,850	**31,900**	6,584	5,197	8,167	6,115
31,900	**31,950**	6,601	5,211	8,188	6,131
31,950	**32,000**	6,618	5,225	8,209	6,147

* This column must also be used by a qualifying widow(er).

Continued on next page

If line 37 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—			
32,000					
32,000	**32,050**	6,635	5,239	8,230	6,163
32,050	**32,100**	6,652	5,253	8,251	6,179
32,100	**32,150**	6,669	5,267	8,272	6,195
32,150	**32,200**	6,686	5,281	8,293	6,211
32,200	**32,250**	6,703	5,295	8,314	6,227
32,250	**32,300**	6,720	5,309	8,335	6,243
32,300	**32,350**	6,737	5,323	8,356	6,259
32,350	**32,400**	6,754	5,337	8,377	6,275
32,400	**32,450**	6,771	5,351	8,398	6,291
32,450	**32,500**	6,788	5,365	8,419	6,307
32,500	**32,550**	6,805	5,379	8,440	6,323
32,550	**32,600**	6,822	5,393	8,461	6,339
32,600	**32,650**	6,839	5,407	8,482	6,355
32,650	**32,700**	6,856	5,421	8,503	6,371
32,700	**32,750**	6,873	5,435	8,524	6,387
32,750	**32,800**	6,890	5,449	8,545	6,403
32,800	**32,850**	6,907	5,463	8,566	6,419
32,850	**32,900**	6,924	5,477	8,587	6,435
32,900	**32,950**	6,941	5,491	8,608	6,451
32,950	**33,000**	6,958	5,505	8,629	6,467
33,000					
33,000	**33,050**	6,975	5,519	8,650	6,483
33,050	**33,100**	6,992	5,533	8,671	6,499
33,100	**33,150**	7,009	5,547	8,692	6,515
33,150	**33,200**	7,026	5,561	8,713	6,531
33,200	**33,250**	7,043	5,575	8,734	6,547
33,250	**33,300**	7,060	5,589	8,755	6,563
33,300	**33,350**	7,077	5,603	8,776	6,579
33,350	**33,400**	7,094	5,617	8,797	6,595
33,400	**33,450**	7,111	5,631	8,818	6,611
33,450	**33,500**	7,128	5,645	8,839	6,627
33,500	**33,550**	7,145	5,659	8,860	6,643
33,550	**33,600**	7,162	5,673	8,881	6,659
33,600	**33,650**	7,179	5,687	8,902	6,675
33,650	**33,700**	7,196	5,701	8,923	6,691
33,700	**33,750**	7,213	5,715	8,944	6,707
33,750	**33,800**	7,230	5,729	8,965	6,723
33,800	**33,850**	7,247	5,743	8,986	6,739
33,850	**33,900**	7,264	5,757	9,007	6,755
33,900	**33,950**	7,281	5,771	9,028	6,771
33,950	**34,000**	7,298	5,785	9,049	6,787
34,000					
34,000	**34,050**	7,315	5,799	9,070	6,803
34,050	**34,100**	7,332	5,813	9,091	6,819
34,100	**34,150**	7,349	5,827	9,112	6,835
34,150	**34,200**	7,366	5,841	9,133	6,851
34,200	**34,250**	7,383	5,855	9,154	6,867
34,250	**34,300**	7,400	5,869	9,175	6,883
34,300	**34,350**	7,417	5,883	9,196	6,899
34,350	**34,400**	7,434	5,897	9,217	6,915
34,400	**34,450**	7,451	5,911	9,238	6,931
34,450	**34,500**	7,468	5,925	9,259	6,947
34,500	**34,550**	7,485	5,939	9,280	6,963
34,550	**34,600**	7,502	5,953	9,301	6,979
34,600	**34,650**	7,519	5,967	9,322	6,995
34,650	**34,700**	7,536	5,981	9,343	7,011
34,700	**34,750**	7,553	5,995	9,364	7,027
34,750	**34,800**	7,570	6,009	9,385	7,043
34,800	**34,850**	7,587	6,023	9,406	7,059
34,850	**34,900**	7,604	6,037	9,427	7,075
34,900	**34,950**	7,621	6,051	9,448	7,091
34,950	**35,000**	7,638	6,065	9,469	7,107
35,000					
35,000	**35,050**	7,655	6,079	9,490	7,123
35,050	**35,100**	7,672	6,093	9,511	7,139
35,100	**35,150**	7,689	6,107	9,532	7,155
35,150	**35,200**	7,706	6,121	9,553	7,171
35,200	**35,250**	7,723	6,135	9,574	7,187
35,250	**35,300**	7,740	6,149	9,595	7,203
35,300	**35,350**	7,757	6,163	9,616	7,219
35,350	**35,400**	7,774	6,177	9,637	7,235
35,400	**35,450**	7,791	6,191	9,658	7,251
35,450	**35,500**	7,808	6,205	9,679	7,267
35,500	**35,550**	7,827	6,219	9,700	7,284
35,550	**35,600**	7,846	6,233	9,721	7,301
35,600	**35,650**	7,865	6,247	9,742	7,319
35,650	**35,700**	7,884	6,261	9,763	7,336
35,700	**35,750**	7,903	6,275	9,784	7,354
35,750	**35,800**	7,922	6,289	9,805	7,371
35,800	**35,850**	7,941	6,303	9,826	7,389
35,850	**35,900**	7,960	6,317	9,847	7,406
35,900	**35,950**	7,979	6,331	9,868	7,424
35,950	**36,000**	7,998	6,345	9,889	7,441
36,000					
36,000	**36,050**	8,017	6,359	9,910	7,459
36,050	**36,100**	8,036	6,373	9,931	7,476
36,100	**36,150**	8,055	6,387	9,952	7,494
36,150	**36,200**	8,074	6,401	9,973	7,511
36,200	**36,250**	8,093	6,415	9,994	7,529
36,250	**36,300**	8,112	6,429	10,015	7,546
36,300	**36,350**	8,131	6,443	10,036	7,564
36,350	**36,400**	8,150	6,457	10,057	7,581
36,400	**36,450**	8,169	6,471	10,078	7,599
36,450	**36,500**	8,188	6,485	10,099	7,616
36,500	**36,550**	8,207	6,499	10,120	7,634
36,550	**36,600**	8,226	6,513	10,141	7,651
36,600	**36,650**	8,245	6,527	10,162	7,669
36,650	**36,700**	8,264	6,543	10,183	7,686
36,700	**36,750**	8,283	6,560	10,204	7,704
36,750	**36,800**	8,302	6,576	10,225	7,721
36,800	**36,850**	8,321	6,593	10,246	7,739
36,850	**36,900**	8,340	6,609	10,267	7,756
36,900	**36,950**	8,359	6,626	10,288	7,774
36,950	**37,000**	8,378	6,642	10,309	7,791
37,000					
37,000	**37,050**	8,397	6,659	10,330	7,809
37,050	**37,100**	8,416	6,675	10,351	7,826
37,100	**37,150**	8,435	6,692	10,372	7,844
37,150	**37,200**	8,454	6,708	10,393	7,861
37,200	**37,250**	8,473	6,725	10,414	7,879
37,250	**37,300**	8,492	6,741	10,435	7,896
37,300	**37,350**	8,511	6,758	10,456	7,914
37,350	**37,400**	8,530	6,774	10,477	7,931
37,400	**37,450**	8,549	6,791	10,498	7,949
37,450	**37,500**	8,568	6,807	10,519	7,966
37,500	**37,550**	8,587	6,824	10,540	7,984
37,550	**37,600**	8,606	6,840	10,561	8,001
37,600	**37,650**	8,625	6,857	10,582	8,019
37,650	**37,700**	8,644	6,873	10,603	8,036
37,700	**37,750**	8,663	6,890	10,624	8,054
37,750	**37,800**	8,682	6,906	10,645	8,071
37,800	**37,850**	8,701	6,923	10,666	8,089
37,850	**37,900**	8,720	6,939	10,687	8,106
37,900	**37,950**	8,739	6,956	10,708	8,124
37,950	**38,000**	8,758	6,972	10,729	8,141
38,000					
38,000	**38,050**	8,777	6,989	10,750	8,159
38,050	**38,100**	8,796	7,005	10,771	8,176
38,100	**38,150**	8,815	7,022	10,792	8,194
38,150	**38,200**	8,834	7,038	10,813	8,211
38,200	**38,250**	8,853	7,055	10,834	8,229
38,250	**38,300**	8,872	7,071	10,855	8,246
38,300	**38,350**	8,891	7,088	10,876	8,264
38,350	**38,400**	8,910	7,104	10,897	8,281
38,400	**38,450**	8,929	7,121	10,918	8,299
38,450	**38,500**	8,948	7,137	10,939	8,316
38,500	**38,550**	8,967	7,154	10,960	8,334
38,550	**38,600**	8,986	7,170	10,981	8,351
38,600	**38,650**	9,005	7,187	11,002	8,369
38,650	**38,700**	9,024	7,203	11,023	8,386
38,700	**38,750**	9,043	7,220	11,044	8,404
38,750	**38,800**	9,062	7,236	11,065	8,421
38,800	**38,850**	9,081	7,253	11,086	8,439
38,850	**38,900**	9,100	7,269	11,107	8,456
38,900	**38,950**	9,119	7,286	11,128	8,474
38,950	**39,000**	9,138	7,302	11,149	8,491
39,000					
39,000	**39,050**	9,157	7,319	11,170	8,509
39,050	**39,100**	9,176	7,335	11,191	8,526
39,100	**39,150**	9,195	7,352	11,212	8,544
39,150	**39,200**	9,214	7,368	11,233	8,561
39,200	**39,250**	9,233	7,385	11,254	8,579
39,250	**39,300**	9,252	7,401	11,275	8,596
39,300	**39,350**	9,271	7,418	11,296	8,614
39,350	**39,400**	9,290	7,434	11,317	8,631
39,400	**39,450**	9,309	7,451	11,338	8,649
39,450	**39,500**	9,328	7,467	11,359	8,666
39,500	**39,550**	9,347	7,484	11,380	8,684
39,550	**39,600**	9,366	7,500	11,401	8,701
39,600	**39,650**	9,385	7,517	11,422	8,719
39,650	**39,700**	9,404	7,533	11,443	8,736
39,700	**39,750**	9,423	7,550	11,464	8,754
39,750	**39,800**	9,442	7,566	11,485	8,771
39,800	**39,850**	9,461	7,583	11,506	8,789
39,850	**39,900**	9,480	7,599	11,527	8,806
39,900	**39,950**	9,499	7,616	11,548	8,824
39,950	**40,000**	9,518	7,632	11,569	8,841
40,000					
40,000	**40,050**	9,537	7,649	11,590	8,859
40,050	**40,100**	9,556	7,665	11,611	8,876
40,100	**40,150**	9,575	7,682	11,632	8,894
40,150	**40,200**	9,594	7,698	11,653	8,911
40,200	**40,250**	9,613	7,715	11,674	8,929
40,250	**40,300**	9,632	7,731	11,695	8,946
40,300	**40,350**	9,651	7,748	11,716	8,964
40,350	**40,400**	9,670	7,764	11,737	8,981
40,400	**40,450**	9,689	7,781	11,758	8,999
40,450	**40,500**	9,708	7,797	11,779	9,016
40,500	**40,550**	9,727	7,814	11,800	9,034
40,550	**40,600**	9,746	7,830	11,821	9,051
40,600	**40,650**	9,765	7,847	11,842	9,069
40,650	**40,700**	9,784	7,863	11,863	9,086
40,700	**40,750**	9,803	7,880	11,884	9,104
40,750	**40,800**	9,822	7,896	11,905	9,121
40,800	**40,850**	9,841	7,913	11,926	9,139
40,850	**40,900**	9,860	7,929	11,947	9,156
40,900	**40,950**	9,879	7,946	11,968	9,174
40,950	**41,000**	9,898	7,962	11,989	9,191

* This column must also be used by a qualifying widow(er).

Continued on next page

1985 Tax Table—*Continued*

If line 37 (taxable income) is—		And you are—			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
		Your tax is—			
41,000					
41,000	**41,050**	9,917	7,979	12,010	9,209
41,050	**41,100**	9,936	7,995	12,031	9,226
41,100	**41,150**	9,955	8,012	12,052	9,244
41,150	**41,200**	9,974	8,028	12,073	9,261
41,200	**41,250**	9,993	8,045	12,094	9,279
41,250	**41,300**	10,012	8,061	12,115	9,296
41,300	**41,350**	10,031	8,078	12,136	9,314
41,350	**41,400**	10,050	8,094	12,157	9,331
41,400	**41,450**	10,069	8,111	12,178	9,349
41,450	**41,500**	10,088	8,127	12,199	9,366
41,500	**41,550**	10,107	8,144	12,220	9,384
41,550	**41,600**	10,126	8,160	12,241	9,401
41,600	**41,650**	10,145	8,177	12,262	9,419
41,650	**41,700**	10,164	8,193	12,283	9,436
41,700	**41,750**	10,183	8,210	12,304	9,454
41,750	**41,800**	10,202	8,226	12,325	9,471
41,800	**41,850**	10,221	8,243	12,346	9,489
41,850	**41,900**	10,240	8,259	12,367	9,506
41,900	**41,950**	10,259	8,276	12,388	9,524
41,950	**42,000**	10,278	8,292	12,409	9,541
42,000					
42,000	**42,050**	10,297	8,309	12,430	9,559
42,050	**42,100**	10,316	8,325	12,451	9,576
42,100	**42,150**	10,335	8,342	12,472	9,594
42,150	**42,200**	10,354	8,358	12,493	9,611
42,200	**42,250**	10,373	8,375	12,514	9,629
42,250	**42,300**	10,392	8,391	12,535	9,646
42,300	**42,350**	10,411	8,408	12,556	9,664
42,350	**42,400**	10,430	8,424	12,577	9,681
42,400	**42,450**	10,449	8,441	12,598	9,699
42,450	**42,500**	10,468	8,457	12,619	9,716
42,500	**42,550**	10,487	8,474	12,640	9,734
42,550	**42,600**	10,506	8,490	12,661	9,751
42,600	**42,650**	10,525	8,507	12,682	9,769
42,650	**42,700**	10,544	8,523	12,703	9,786
42,700	**42,750**	10,563	8,540	12,724	9,804
42,750	**42,800**	10,582	8,556	12,745	9,821
42,800	**42,850**	10,601	8,573	12,766	9,839
42,850	**42,900**	10,620	8,589	12,787	9,856
42,900	**42,950**	10,639	8,606	12,808	9,874
42,950	**43,000**	10,658	8,622	12,829	9,891
43,000					
43,000	**43,050**	10,677	8,639	12,850	9,909
43,050	**43,100**	10,696	8,655	12,871	9,926
43,100	**43,150**	10,715	8,672	12,892	9,944
43,150	**43,200**	10,734	8,688	12,913	9,961
43,200	**43,250**	10,754	8,705	12,934	9,979
43,250	**43,300**	10,775	8,721	12,955	9,996
43,300	**43,350**	10,796	8,738	12,976	10,014
43,350	**43,400**	10,817	8,754	12,997	10,031
43,400	**43,450**	10,838	8,771	13,018	10,049
43,450	**43,500**	10,859	8,787	13,039	10,066
43,500	**43,550**	10,880	8,804	13,060	10,084
43,550	**43,600**	10,901	8,820	13,081	10,101
43,600	**43,650**	10,922	8,837	13,102	10,119
43,650	**43,700**	10,943	8,853	13,123	10,136
43,700	**43,750**	10,964	8,870	13,144	10,154
43,750	**43,800**	10,985	8,886	13,165	10,171
43,800	**43,850**	11,006	8,903	13,186	10,189
43,850	**43,900**	11,027	8,919	13,207	10,206
43,900	**43,950**	11,048	8,936	13,228	10,224
43,950	**44,000**	11,069	8,952	13,249	10,241
44,000					
44,000	**44,050**	11,090	8,969	13,270	10,259
44,050	**44,100**	11,111	8,985	13,291	10,276
44,100	**44,150**	11,132	9,002	13,312	10,294
44,150	**44,200**	11,153	9,018	13,333	10,311
44,200	**44,250**	11,174	9,035	13,354	10,329
44,250	**44,300**	11,195	9,051	13,375	10,346
44,300	**44,350**	11,216	9,068	13,396	10,364
44,350	**44,400**	11,237	9,084	13,417	10,381
44,400	**44,450**	11,258	9,101	13,438	10,399
44,450	**44,500**	11,279	9,117	13,459	10,416
44,500	**44,550**	11,300	9,134	13,480	10,434
44,550	**44,600**	11,321	9,150	13,502	10,451
44,600	**44,650**	11,342	9,167	13,524	10,469
44,650	**44,700**	11,363	9,183	13,547	10,486
44,700	**44,750**	11,384	9,200	13,569	10,504
44,750	**44,800**	11,405	9,216	13,592	10,521
44,800	**44,850**	11,426	9,233	13,614	10,539
44,850	**44,900**	11,447	9,249	13,637	10,556
44,900	**44,950**	11,468	9,266	13,659	10,574
44,950	**45,000**	11,489	9,282	13,682	10,591
45,000					
45,000	**45,050**	11,510	9,299	13,704	10,609
45,050	**45,100**	11,531	9,315	13,727	10,626
45,100	**45,150**	11,552	9,332	13,749	10,644
45,150	**45,200**	11,573	9,348	13,772	10,661
45,200	**45,250**	11,594	9,365	13,794	10,679
45,250	**45,300**	11,615	9,381	13,817	10,696
45,300	**45,350**	11,636	9,398	13,839	10,714
45,350	**45,400**	11,657	9,414	13,862	10,731
45,400	**45,450**	11,678	9,431	13,884	10,749
45,450	**45,500**	11,699	9,447	13,907	10,766
45,500	**45,550**	11,720	9,464	13,929	10,784
45,550	**45,600**	11,741	9,480	13,952	10,801
45,600	**45,650**	11,762	9,497	13,974	10,819
45,650	**45,700**	11,783	9,513	13,997	10,836
45,700	**45,750**	11,804	9,530	14,019	10,854
45,750	**45,800**	11,825	9,546	14,042	10,871
45,800	**45,850**	11,846	9,563	14,064	10,889
45,850	**45,900**	11,867	9,579	14,087	10,906
45,900	**45,950**	11,888	9,596	14,109	10,924
45,950	**46,000**	11,909	9,612	14,132	10,941
46,000					
46,000	**46,050**	11,930	9,629	14,154	10,959
46,050	**46,100**	11,951	9,645	14,177	10,976
46,100	**46,150**	11,972	9,662	14,199	10,994
46,150	**46,200**	11,993	9,678	14,222	11,011
46,200	**46,250**	12,014	9,695	14,244	11,029
46,250	**46,300**	12,035	9,711	14,267	11,046
46,300	**46,350**	12,056	9,728	14,289	11,064
46,350	**46,400**	12,077	9,744	14,312	11,081
46,400	**46,450**	12,098	9,761	14,334	11,099
46,450	**46,500**	12,119	9,777	14,357	11,116
46,500	**46,550**	12,140	9,794	14,379	11,134
46,550	**46,600**	12,161	9,810	14,402	11,155
46,600	**46,650**	12,182	9,827	14,424	11,176
46,650	**46,700**	12,203	9,843	14,447	11,197
46,700	**46,750**	12,224	9,860	14,469	11,218
46,750	**46,800**	12,245	9,876	14,492	11,239
46,800	**46,850**	12,266	9,893	14,514	11,260
46,850	**46,900**	12,287	9,909	14,537	11,281
46,900	**46,950**	12,308	9,926	14,559	11,302
46,950	**47,000**	12,329	9,942	14,582	11,323
47,000					
47,000	**47,050**	12,350	9,959	14,604	11,344
47,050	**47,100**	12,371	9,975	14,627	11,365
47,100	**47,150**	12,392	9,992	14,649	11,386
47,150	**47,200**	12,413	10,008	14,672	11,407
47,200	**47,250**	12,434	10,025	14,694	11,428
47,250	**47,300**	12,455	10,041	14,717	11,449
47,300	**47,350**	12,476	10,058	14,739	11,470
47,350	**47,400**	12,497	10,074	14,762	11,491
47,400	**47,450**	12,518	10,091	14,784	11,512
47,450	**47,500**	12,539	10,107	14,807	11,533
47,500	**47,550**	12,560	10,124	14,829	11,554
47,550	**47,600**	12,581	10,140	14,852	11,575
47,600	**47,650**	12,602	10,157	14,874	11,596
47,650	**47,700**	12,623	10,174	14,897	11,617
47,700	**47,750**	12,644	10,193	14,919	11,638
47,750	**47,800**	12,665	10,212	14,942	11,659
47,800	**47,850**	12,686	10,231	14,964	11,680
47,850	**47,900**	12,707	10,250	14,987	11,701
47,900	**47,950**	12,728	10,269	15,009	11,722
47,950	**48,000**	12,749	10,288	15,032	11,743
48,000					
48,000	**48,050**	12,770	10,307	15,054	11,764
48,050	**48,100**	12,791	10,326	15,077	11,785
48,100	**48,150**	12,812	10,345	15,099	11,806
48,150	**48,200**	12,833	10,364	15,122	11,827
48,200	**48,250**	12,854	10,383	15,144	11,848
48,250	**48,300**	12,875	10,402	15,167	11,869
48,300	**48,350**	12,896	10,421	15,189	11,890
48,350	**48,400**	12,917	10,440	15,212	11,911
48,400	**48,450**	12,938	10,459	15,234	11,932
48,450	**48,500**	12,959	10,478	15,257	11,953
48,500	**48,550**	12,980	10,497	15,279	11,974
48,550	**48,600**	13,001	10,516	15,302	11,995
48,600	**48,650**	13,022	10,535	15,324	12,016
48,650	**48,700**	13,043	10,554	15,347	12,037
48,700	**48,750**	13,064	10,573	15,369	12,058
48,750	**48,800**	13,085	10,592	15,392	12,079
48,800	**48,850**	13,106	10,611	15,414	12,100
48,850	**48,900**	13,127	10,630	15,437	12,121
48,900	**48,950**	13,148	10,649	15,459	12,142
48,950	**49,000**	13,169	10,668	15,482	12,163
49,000					
49,000	**49,050**	13,190	10,687	15,504	12,184
49,050	**49,100**	13,211	10,706	15,527	12,205
49,100	**49,150**	13,232	10,725	15,549	12,226
49,150	**49,200**	13,253	10,744	15,572	12,247
49,200	**49,250**	13,274	10,763	15,594	12,268
49,250	**49,300**	13,295	10,782	15,617	12,289
49,300	**49,350**	13,316	10,801	15,639	12,310
49,350	**49,400**	13,337	10,820	15,662	12,331
49,400	**49,450**	13,358	10,839	15,684	12,352
49,450	**49,500**	13,379	10,858	15,707	12,373
49,500	**49,550**	13,400	10,877	15,729	12,394
49,550	**49,600**	13,421	10,896	15,752	12,415
49,600	**49,650**	13,442	10,915	15,774	12,436
49,650	**49,700**	13,463	10,934	15,797	12,457
49,700	**49,750**	13,484	10,953	15,819	12,478
49,750	**49,800**	13,505	10,972	15,842	12,499
49,800	**49,850**	13,526	10,991	15,864	12,520
49,850	**49,900**	13,547	11,010	15,887	12,541
49,900	**49,950**	13,568	11,029	15,909	12,562
49,950	**50,000**	13,589	11,048	15,932	12,583
50,000 or over—use tax rate schedules					

* This column must also be used by a qualifying widow(er).

1985 Tax Rate Schedules

Your zero bracket amount has been built into these Tax Rate Schedules.

Caution: You must use the Tax Table instead of these Tax Rate Schedules if your taxable income is less than $50,000 unless you use **Schedule G,** Income Averaging, to figure your tax. In that case, even if your taxable income is less than $50,000, use the rate schedules on this page to figure your tax.

Schedule X

Single Taxpayers

Use this Schedule if you checked **Filing Status Box 1** on Form 1040—

If the amount on Form 1040, line 37 is: Over—	But not over—	Enter on Form 1040, line 38	of the amount over—
$0	$2,390	**—0—**	
2,390	3,540	........**11%**	**$2,390**
3,540	4,580	**$126.50 + 12%**	**3,540**
4,580	6,760	**251.30 + 14%**	**4,580**
6,760	8,850	**556.50 + 15%**	**6,760**
8,850	11,240	**870.00 + 16%**	**8,850**
11,240	13,430	**1,252.40 + 18%**	**11,240**
13,430	15,610	**1,646.60 + 20%**	**13,430**
15,610	18,940	**2,082.60 + 23%**	**15,610**
18,940	24,460	**2,848.50 + 26%**	**18,940**
24,460	29,970	**4,283.70 + 30%**	**24,460**
29,970	35,490	**5,936.70 + 34%**	**29,970**
35,490	43,190	**7,813.50 + 38%**	**35,490**
43,190	57,550	**10,739.50 + 42%**	**43,190**
57,550	85,130	**16,770.70 + 48%**	**57,550**
85,130	....	**30,009.10 + 50%**	**85,130**

Schedule Z

Unmarried Heads of Household

(including certain married persons who live apart—see page 5 of the instructions)

Use this schedule if you checked **Filing Status Box 4** on Form 1040—

If the amount on Form 1040, line 37 is: Over—	But not over—	Enter on Form 1040, line 38	of the amount over—
$0	$2,390	**—0—**	
2,390	4,580	........**11%**	**$2,390**
4,580	6,760	**$240.90 + 12%**	**4,580**
6,760	9,050	**502.50 + 14%**	**6,760**
9,050	12,280	**823.10 + 17%**	**9,050**
12,280	15,610	**1,372.20 + 18%**	**12,280**
15,610	18,940	**1,971.60 + 20%**	**15,610**
18,940	24,460	**2,637.60 + 24%**	**18,940**
24,460	29,970	**3,962.40 + 28%**	**24,460**
29,970	35,490	**5,505.20 + 32%**	**29,970**
35,490	46,520	**7,271.60 + 35%**	**35,490**
46,520	63,070	**11,132.10 + 42%**	**46,520**
63,070	85,130	**18,083.10 + 45%**	**63,070**
85,130	112,720	**28,010.10 + 48%**	**85,130**
112,720	....	**41,253.30 + 50%**	**112,720**

Schedule Y

Married Taxpayers and Qualifying Widows and Widowers

Married Filing Joint Returns and Qualifying Widows and Widowers

Use this schedule if you checked **Filing Status Box 2 or 5** on Form 1040—

If the amount on Form 1040, line 37 is: Over—	But not over—	Enter on Form 1040, line 38	of the amount over—
$0	$3,540	**—0—**	
3,540	5,720	........**11%**	**$3,540**
5,720	7,910	**$239.80 + 12%**	**5,720**
7,910	12,390	**502.60 + 14%**	**7,910**
12,390	16,650	**1,129.80 + 16%**	**12,390**
16,650	21,020	**1,811.40 + 18%**	**16,650**
21,020	25,600	**2,598.00 + 22%**	**21,020**
25,600	31,120	**3,605.60 + 25%**	**25,600**
31,120	36,630	**4,985.60 + 28%**	**31,120**
36,630	47,670	**6,528.40 + 33%**	**36,630**
47,670	62,450	**10,171.60 + 38%**	**47,670**
62,450	89,090	**15,788.00 + 42%**	**62,450**
89,090	113,860	**26,976.80 + 45%**	**89,090**
113,860	169,020	**38,123.30 + 49%**	**113,860**
169,020	....	**65,151.70 + 50%**	**169,020**

Married Filing Separate Returns

Use this schedule if you checked **Filing Status Box 3** on Form 1040—

If the amount on Form 1040, line 37 is: Over—	But not over—	Enter on Form 1040, line 38	of the amount over—
$0	$1,770	**—0—**	
1,770	2,860	........**11%**	**$1,770**
2,860	3,955	**$119.90 + 12%**	**2,860**
3,955	6,195	**251.30 + 14%**	**3,955**
6,195	8,325	**564.90 + 16%**	**6,195**
8,325	10,510	**905.70 + 18%**	**8,325**
10,510	12,800	**1,299.00 + 22%**	**10,510**
12,800	15,560	**1,802.80 + 25%**	**12,800**
15,560	18,315	**2,492.80 + 28%**	**15,560**
18,315	23,835	**3,264.20 + 33%**	**18,315**
23,835	31,225	**5,085.80 + 38%**	**23,835**
31,225	44,545	**7,894.00 + 42%**	**31,225**
44,545	56,930	**13,488.40 + 45%**	**44,545**
56,930	84,510	**19,061.65 + 49%**	**56,930**
84,510	....	**32,575.85 + 50%**	**84,510**

1985 Optional State Sales Tax Tables

(If you kept records that show you paid more sales tax than the table for your state indicates, you may claim the higher amount on Schedule A, line 8a.)

Your itemized deduction for general sales tax paid can be estimated from these tables plus any qualifying sales taxes paid on the items listed on page 20.

To use the tables:

Step 1—Figure your total available income. Use the total of the amount on Form 1040, line 33, and nontaxable income such as veterans' benefits, workers' compensation, nontaxable part of unemployment compensation or long-term capital gains (however, do not include gains that are nontaxable because they were reinvested in similar property, such as a principal residence), nontaxable part of social security and railroad retirement benefits, dividend's exclusion, deduction for a married couple when both work, and public assistance payments.

Step 2—Count the number of exemptions for you and your family. Do not count exemptions claimed for being 65 or over or blind as part of your family size.

Step 3 A—If your total available income is not over $40,000, find the income line for your state on the tables and read across to find the amount of sales tax for your family size.

Step 3 B—If your income is over $40,000 but not over $100,000, find the deduction listed on the income line "$38,001-$40,000" for your family size and state. For each $5,000 (or part of $5,000) of income over $40,000, increase the deduction by the amount listed for the line "$40,001-$100,000."

Step 3 C—If your income is over $100,000, your sales tax deduction is limited to the deduction for income of $100,000. To figure your sales tax deduction, use Step 3 B, but don't go over $100,000.

Income	Alabama [1]						Arizona [2]					Arkansas [1]					
	Family size 1	2	3	4	5	Over 5	Family size 1&2	3	4	5	Over 5	Family size 1	2	3	4	5	Over 5
$1-$8,000	91	113	120	130	141	160	105	120	120	127	133	102	127	134	143	153	173
$8,001-$10,000	107	129	140	151	164	185	124	142	142	150	157	119	145	156	167	178	199
$10,001-$12,000	121	144	159	171	185	207	141	162	163	171	179	135	161	176	188	201	223
$12,001-$14,000	135	158	176	190	204	227	157	181	183	192	200	150	176	195	208	222	245
$14,001-$16,000	148	170	192	207	223	246	173	199	203	211	219	164	190	212	227	242	266
$16,001-$18,000	160	182	208	224	240	265	187	217	222	229	238	177	203	229	245	261	285
$18,001-$20,000	172	193	222	240	257	282	201	233	240	247	256	189	215	245	262	279	304
$20,001-$22,000	183	204	236	255	273	298	215	249	258	264	274	201	226	260	279	296	321
$22,001-$24,000	194	214	250	269	288	314	228	265	275	281	291	213	237	275	295	313	338
$24,001-$26,000	204	224	263	283	303	329	241	280	292	297	307	224	248	289	310	329	355
$26,001-$28,000	214	234	276	297	317	344	253	295	308	313	323	235	258	303	325	344	371
$28,001-$30,000	224	243	289	310	331	358	265	309	324	328	338	246	268	316	339	359	386
$30,001-$32,000	234	252	301	323	344	372	277	323	340	343	353	256	278	329	353	374	401
$32,001-$34,000	244	261	313	336	357	385	289	337	355	358	368	266	287	342	367	388	415
$34,001-$36,000	253	269	324	348	370	398	300	350	370	372	382	276	296	354	380	402	429
$36,001-$38,000	262	277	335	360	383	411	311	363	385	386	396	286	305	366	393	416	443
$38,001-$40,000	271	285	346	372	395	423	322	376	399	400	410	295	313	377	405	429	456
$40,001-$100,000 (See Step 3B)	14	14	17	19	20	21	16	19	20	20	21	15	16	19	20	21	23

Income	California [3]				Colorado [2]				Connecticut [4]				Dist. of Columbia					
	Family size 1&2	3&4	5	Over 5	Family size 1&2	3&4	5	Over 5	Family size 1&2	3&4	5	Over 5	Family size 1	2	3	4	5	Over 5
$1-$8,000	125	147	155	164	43	51	54	57	107	118	124	125	94	112	125	125	132	140
$8,001-$10,000	147	173	183	193	50	61	64	68	127	141	148	150	110	129	145	146	155	164
$10,001-$12,000	167	198	208	219	57	70	74	78	146	163	171	173	125	145	164	166	177	186
$12,001-$14,000	186	220	232	243	64	78	83	87	163	184	192	195	139	159	182	186	197	206
$14,001-$16,000	204	242	255	266	70	86	91	95	180	204	213	216	152	173	198	205	216	225
$16,001-$18,000	222	263	276	288	76	94	99	103	196	224	232	236	165	186	213	223	234	244
$18,001-$20,000	238	282	297	309	82	101	107	111	212	243	251	256	177	198	228	240	252	261
$20,001-$22,000	254	301	317	330	87	108	115	119	227	261	270	275	189	210	242	256	268	278
$22,001-$24,000	270	320	336	349	92	115	122	127	242	279	288	294	200	221	256	272	284	294
$24,001-$26,000	285	338	355	368	97	122	129	134	256	296	305	312	211	232	269	287	300	310
$26,001-$28,000	299	355	373	386	102	129	136	141	270	313	322	330	222	242	282	302	315	325
$28,001-$30,000	313	372	391	404	107	135	143	148	284	330	339	347	232	252	295	317	330	340
$30,001-$32,000	327	389	408	422	112	141	150	155	297	346	355	364	242	262	307	332	345	354
$32,001-$34,000	341	405	425	439	117	147	156	162	310	362	371	381	252	272	319	346	359	368
$34,001-$36,000	354	421	441	455	122	153	162	168	323	378	387	397	262	281	330	360	373	382
$36,001-$38,000	367	436	457	471	126	159	168	174	335	393	402	413	271	290	341	373	387	396
$38,001-$40,000	380	451	473	487	130	165	174	180	347	408	417	429	280	299	352	386	400	409
$40,001-$100,000 (See Step 3B)	19	23	24	24	7	8	9	9	17	20	21	21	14	15	18	19	20	20

Income	Florida [1]					Georgia [1]						Hawaii				
	Family size 1&2	3	4	5	Over 5	Family size 1	2	3	4	5	Over 5	Family size 1&2	3	4	5	Over 5
$1-$8,000	104	123	123	130	139	82	103	110	116	125	141	158	180	183	190	204
$8,001-$10,000	124	145	146	155	164	95	117	127	135	145	161	181	206	209	219	235
$10,001-$12,000	142	166	168	178	187	107	130	143	152	163	180	201	228	234	245	263
$12,001-$14,000	159	186	189	200	209	118	141	157	167	179	198	220	249	256	269	288
$14,001-$16,000	176	204	210	221	230	129	152	171	182	195	214	238	268	277	292	312
$16,001-$18,000	192	222	229	241	250	139	162	184	196	210	229	254	286	297	313	335
$18,001-$20,000	207	239	248	260	269	149	171	196	209	224	244	270	303	315	333	356
$20,001-$22,000	222	255	267	278	288	158	180	208	222	237	258	285	319	333	352	377
$22,001-$24,000	236	271	285	296	306	167	189	219	234	250	271	299	335	350	371	397
$24,001-$26,000	250	287	302	314	324	176	198	230	246	262	283	313	350	366	389	416
$26,001-$28,000	264	302	319	331	341	184	206	240	258	274	295	326	364	382	406	434
$28,001-$30,000	277	317	336	348	357	192	213	250	269	286	307	339	378	397	423	451
$30,001-$32,000	290	331	353	364	373	200	220	260	280	297	319	351	391	412	439	468
$32,001-$34,000	303	345	369	380	389	208	227	270	290	308	330	363	404	426	454	485
$34,001-$36,000	315	359	385	396	405	215	234	279	300	319	341	375	416	440	469	501
$36,001-$38,000	327	373	400	412	420	222	241	288	310	330	352	386	428	454	484	517
$38,001-$40,000	339	386	415	427	435	229	247	297	320	340	362	397	440	467	499	533
$40,001-$100,000 (See Step 3B)	17	19	21	21	22	11	12	15	16	17	18	20	22	23	25	27

Income	Idaho						Illinois [5]				Indiana			
	Family size 1	2	3	4	5	Over 5	Family size 1&2	3&4	5	Over 5	Family size 1&2	3&4	5	Over 5
$1-$8,000	91	111	119	129	141	159	136	162	173	184	117	139	148	157
$8,001-$10,000	107	127	139	151	164	184	159	190	203	215	137	163	173	183
$10,001-$12,000	122	142	158	170	185	206	180	216	230	243	156	186	197	207
$12,001-$14,000	136	156	175	189	204	227	200	240	256	270	173	207	219	230
$14,001-$16,000	149	168	191	206	222	246	219	264	280	295	189	227	240	252
$16,001-$18,000	161	180	206	223	239	264	237	286	303	318	205	246	260	272
$18,001-$20,000	173	191	220	239	256	281	254	307	326	341	220	264	279	291
$20,001-$22,000	185	202	234	254	272	298	270	327	347	363	234	282	298	310
$22,001-$24,000	196	212	248	268	287	314	286	347	367	384	248	299	316	328
$24,001-$26,000	206	222	261	282	301	329	302	366	387	404	261	316	333	346
$26,001-$28,000	217	231	274	296	315	344	317	385	407	424	274	332	350	363
$28,001-$30,000	227	240	286	309	329	358	331	403	426	443	287	347	366	379
$30,001-$32,000	237	249	298	322	343	372	345	421	444	461	299	362	382	395
$32,001-$34,000	247	257	310	335	356	385	359	438	462	479	311	377	397	411
$34,001-$36,000	256	266	321	347	369	398	373	455	479	497	323	392	412	426
$36,001-$38,000	265	274	332	359	381	411	386	471	496	514	334	406	427	441
$38,001-$40,000	274	282	343	371	393	423	399	487	513	531	345	420	442	456
$40,001-$100,000 (See Step 3B)	14	14	17	19	20	21	20	24	26	27	17	21	22	23

Income	Iowa			Kansas [1]						Kentucky			
	Family size 1&2	3,4&5	Over 5	Family size 1	2	3	4	5	Over 5	Family size 1&2	3&4	5	Over 5
$1-$8,000	96	107	115	72	90	95	102	108	122	91	104	109	117
$8,001-$10,000	113	127	136	85	104	112	120	127	142	108	124	130	138
$10,001-$12,000	129	146	155	96	116	127	136	144	160	124	143	150	157
$12,001-$14,000	144	164	173	107	128	141	151	160	177	138	161	168	176
$14,001-$16,000	158	181	191	117	138	155	165	176	193	152	178	186	193
$16,001-$18,000	172	197	207	126	148	168	179	191	208	165	195	203	210
$18,001-$20,000	185	212	223	135	158	130	192	205	222	178	211	219	226
$20,001-$22,000	198	227	239	144	167	192	205	219	236	190	226	235	241
$22,001-$24,000	210	242	254	153	176	203	217	232	249	202	241	250	256
$24,001-$26,000	222	256	266	161	184	214	229	245	262	214	256	265	271
$26,001-$28,000	233	270	282	169	192	225	240	257	274	225	270	280	285
$28,001-$30,000	244	284	296	177	200	235	251	269	286	236	284	294	299
$30,001-$32,000	255	297	309	185	208	245	262	281	298	247	298	308	312
$32,001-$34,000	266	310	322	192	215	255	273	293	309	258	312	322	325
$34,001-$36,000	277	323	335	199	222	265	284	304	320	268	325	336	338
$36,001-$38,000	287	336	348	206	229	275	294	315	330	278	338	349	351
$38,001-$40,000	297	348	360	212	236	284	304	325	340	288	351	362	363
$40,001-$100,000 (See Step 3B)	15	17	18	11	12	14	15	16	17	14	18	18	18

Income	Louisiana [6]				Maine [7]				Maryland					Massachusetts [8]	
	Family size 1&2	3&4	5	Over 5	Family size 1&2	3&4	5	Over 5	Family size 1&2	3	4	5	Over 5	Family size 1 & 2	Over 2
$1-$8,000	76	86	89	94	93	105	110	115	80	90	90	94	98	58	63
$8,001-$10,000	90	103	107	112	110	125	131	136	95	108	108	113	118	69	76
$10,001-$12,000	104	119	124	129	126	144	150	157	110	125	125	131	136	79	89
$12,001-$14,000	117	134	140	145	141	162	169	176	124	141	143	149	154	89	101
$14,001-$16,000	129	149	155	161	155	179	187	194	137	157	160	166	171	98	113
$16,001-$18,000	141	163	170	176	169	196	204	211	150	172	177	182	188	107	124
$18,001-$20,000	153	177	184	190	182	212	220	228	163	186	193	198	203	116	135
$20,001-$22,000	164	190	198	204	195	227	236	244	175	200	209	213	219	124	146
$22,001-$24,000	175	203	211	217	208	242	252	260	187	214	225	228	234	132	157
$24,001-$26,000	186	215	224	230	220	257	267	275	198	227	240	243	249	140	168
$26,001-$28,000	196	227	237	243	232	272	282	290	209	240	255	257	263	148	178
$28,001-$30,000	206	239	250	256	243	286	297	305	220	253	270	271	278	155	188
$30,001-$32,000	216	251	263	268	254	300	312	319	231	265	285	285	292	162	198
$32,001-$34,000	226	263	275	280	265	314	326	333	242	277	299	299	305	169	208
$34,001-$36,000	236	275	287	292	276	328	340	347	253	289	313	313	319	176	217
$36,001-$38,000	245	286	299	304	287	341	354	361	263	301	327	327	332	183	227
$38,001-$40,000	254	297	310	315	297	354	367	374	273	313	341	341	345	190	236
$40,001-$100,000 (See Step 3B)	13	15	16	16	15	18	18	19	14	16	17	17	17	10	12

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[1] Local sales taxes are not included. Add an amount based on the ratio between the local and state sales tax rates, considering the number of months each rate has been in effect.

[2] Local sales taxes are not included. Add the amount paid.

[3] The 1¼ percent local sales tax is included. If a ½ of 1 percent local sales tax for transportation is paid all year (Alameda, Contra Costa, Los Angeles, San Francisco, San Mateo, and Santa Cruz counties), add 8 percent of the table amounts. For Santa Clara county, add 15 percent of the table amounts.

[4] Sales tax paid on clothing purchased after March 31, 1985, may be added to the table amounts.

[5] Includes the sales tax on electricity, natural gas and telephone. The Illinois table is based on a combined 6 percent rate (5 state, 1 local). Residents of: Du Page, Kane, Lake, McHenry and Will counties may add 5 percent; Cook county may add 19 percent; Chicago may add an additional 19 percent of the table amount. For other local sales tax, see footnote 1.

[6] If your local sales tax applies to food for home consumption, check your local newspaper during mid-January for the correct deduction. Otherwise, see footnote 1.

[7] Sales tax paid on purchase of electricity of 750 KWH or more per month may be added to the table amounts.

[8] Sales tax paid on the purchase of any single item of clothing for $175 or more may be added to the table amounts.

[9] Sales tax paid on purchases of natural gas or electricity may be added to the table amounts. For local sales tax, see footnote 1.

[10] Local sales taxes are not included. If paid all year, add 26 percent of the table amount for each 1 percent of local sales tax rate. Otherwise, use a proportionate amount. For N.Y. City, add 107 percent of the table amount.

(Footnotes continued on next page)

1985 Optional State Sales Tax Tables—Continued

Income	Michigan				Minnesota [9]		Mississippi						Missouri [1]						Nebraska [1]				Nevada [1]				New Jersey	
	Family size			Over	Family size	Over	Family size					Over	Family size					Over	Family size			Over	Family size			Over	Family size	Over
	1&2	3&4	5	5	1&2	2	1	2	3	4	5	5	1	2	3	4	5	5	1&2	3&4	5	5	1&2	3&4	5	5	1&2	2
$1-$8,000	88	102	108	113	86	99	167	201	215	227	242	271	100	120	127	136	147	165	73	83	88	92	94	106	111	115	76	83
$8,001-$10,000	103	121	127	133	101	118	194	231	250	264	282	313	118	138	149	159	171	191	85	99	104	108	112	128	134	138	91	101
$10,001-$12,000	118	138	145	151	115	136	220	257	282	298	318	350	134	155	168	180	193	214	97	113	118	123	129	148	154	159	105	118
$12,001-$14,000	131	154	161	168	129	152	244	282	312	330	352	385	149	170	187	200	214	235	108	127	132	138	145	167	174	179	118	134
$14,001-$16,000	144	169	177	184	142	168	266	304	340	360	383	418	163	184	204	219	233	256	119	140	146	151	160	186	193	199	131	150
$16,001-$18,000	156	184	192	199	154	183	287	326	367	388	413	449	177	197	221	236	251	275	129	152	159	164	174	204	211	217	144	165
$18,001-$20,000	168	198	207	214	166	198	308	346	392	415	442	478	190	209	237	253	269	293	138	164	171	177	188	221	229	235	156	180
$20,001-$22,000	180	211	221	226	177	212	327	365	416	441	470	506	203	221	252	269	286	310	147	175	183	189	202	238	246	253	167	194
$22,001-$24,000	191	224	234	241	188	226	346	384	440	466	496	533	215	233	267	285	302	327	156	186	194	200	215	254	263	270	178	208
$24,001-$26,000	202	237	247	254	198	240	364	401	462	490	522	559	227	244	281	300	317	343	165	197	205	211	228	270	279	287	189	222
$26,001-$28,000	212	249	260	267	208	253	382	418	484	513	547	584	238	254	295	315	332	358	173	207	216	222	241	286	295	303	200	236
$28,001-$30,000	222	261	272	280	218	266	399	435	506	536	571	608	249	264	308	329	347	373	181	217	227	233	253	301	311	319	211	249
$30,001-$32,000	232	273	284	292	228	279	416	451	527	558	594	631	260	274	321	343	361	388	189	227	237	244	265	316	326	335	221	262
$32,001-$34,000	242	284	296	304	238	291	432	467	547	580	617	654	271	284	334	357	375	402	197	237	247	254	277	331	341	350	231	275
$34,001-$36,000	252	295	308	316	247	303	448	482	566	601	639	676	282	293	347	370	389	416	204	247	257	264	288	346	356	365	241	288
$36,001-$38,000	261	306	319	327	256	315	463	497	585	622	661	698	292	302	359	383	402	429	211	256	267	274	299	360	371	380	251	301
$38,001-$40,000	270	317	330	338	265	327	478	511	604	642	682	719	302	311	371	395	415	442	218	265	276	283	310	374	385	394	261	313
$40,001-$100,000 (See Step 3B)	14	16	17	17	13	16	24	26	30	32	34	36	15	16	19	20	21	22	11	13	14	14	16	19	19	20	13	16

Income	New Mexico [1]						New York [10]				North Carolina [11]						North Dakota [1]				Ohio [1]				Oklahoma [1]						Pennsylvania	
	Family size					Over	Family size			Over	Family size					Over	Family size			Over	Family size			Over	Family size					Over	Family size	Over
	1	2	3	4	5	5	1&2	3&4	5	5	1	2	3	4	5	5	1&2	3&4	5	5	1&2	3&4	5	5	1	2	3	4	5	5	1&2	2
$1-$8,000	117	144	150	155	165	184	86	99	103	108	111	138	146	156	167	190	73	85	88	94	90	102	107	112	74	89	95	100	108	121	77	86
$8,001-$10,000	136	164	174	181	193	213	103	118	123	128	129	157	170	181	194	218	87	101	105	111	107	122	128	134	87	102	110	117	126	140	92	103
$10,001-$12,000	153	183	197	206	219	240	118	136	141	147	146	174	191	204	218	243	99	116	121	127	123	141	147	154	99	114	125	133	142	157	106	120
$12,001-$14,000	169	200	217	228	242	265	132	152	159	165	162	190	211	225	240	267	111	131	136	141	138	159	166	172	110	125	139	148	157	173	120	136
$14,001-$16,000	184	216	237	249	265	288	146	168	176	182	177	205	229	245	261	288	123	145	150	155	153	176	184	191	121	136	152	162	172	188	133	151
$16,001-$18,000	198	231	255	269	286	310	159	183	192	198	191	219	247	264	281	309	134	158	164	169	167	193	201	208	131	146	164	175	185	203	145	166
$18,001-$20,000	211	245	273	289	306	331	172	198	208	214	205	232	264	282	300	328	144	171	177	182	180	209	217	225	141	155	175	187	198	216	157	180
$20,001-$22,000	224	259	290	307	326	351	184	212	223	229	218	244	280	299	318	347	154	184	190	194	193	225	233	241	150	164	186	199	211	229	169	194
$22,001-$24,000	236	272	306	325	345	371	196	226	238	244	230	256	296	316	335	364	164	196	203	206	206	240	248	257	159	172	197	211	223	242	180	207
$24,001-$26,000	248	284	321	342	363	389	208	240	252	258	242	268	311	332	352	381	173	208	215	218	218	255	263	272	168	180	208	222	235	254	191	220
$26,001-$28,000	260	296	336	359	380	407	219	253	266	272	254	279	325	347	368	398	182	219	227	230	230	269	278	287	176	188	218	233	246	265	202	233
$28,001-$30,000	271	308	351	375	397	425	230	266	280	286	265	289	339	362	384	414	191	230	239	241	242	283	293	302	184	196	228	244	257	276	213	246
$30,001-$32,000	282	319	365	391	414	442	241	278	293	299	276	299	353	377	400	429	200	241	250	252	253	297	307	316	192	203	238	255	268	287	223	259
$32,001-$34,000	293	330	379	407	430	459	252	290	306	312	287	309	366	391	415	444	209	252	261	263	264	311	321	330	200	210	247	265	279	298	233	271
$34,001-$36,000	304	341	393	422	446	475	262	302	319	325	298	319	379	405	429	458	217	263	272	273	275	324	334	344	208	217	256	275	289	308	243	283
$36,001-$38,000	314	351	406	437	462	491	272	314	332	337	308	328	392	419	443	472	225	273	283	283	286	337	347	357	216	224	265	285	299	318	253	295
$38,001-$40,000	323	361	419	451	477	506	282	326	345	349	318	337	404	432	457	486	233	283	293	293	297	350	360	370	223	230	273	294	308	328	263	306
$40,001-$100,000 (See Step 3B)	16	18	21	23	24	25	14	16	17	17	16	17	20	22	23	24	12	14	15	15	15	18	18	19	11	12	14	15	15	16	13	15

Income	Rhode Island		South Carolina						South Dakota [2]						Tennessee [1]						Texas [1]				Utah [12]					
	Family size	Over	Family size					Over	Family size					Over	Family size					Over	Family size			Over	Family size					Over
	1&2	2	1	2	3	4	5	5	1	2	3	4	5	5	1	2	3	4	5	5	1&2	3&4	5	5	1	2	3	4	5	5
$1-$8,000	88	94	119	144	153	163	177	200	110	133	140	149	162	182	138	165	174	187	199	225	78	90	97	103	136	164	173	184	197	223
$8,001-$10,000	104	113	139	164	178	190	204	229	129	153	164	174	188	210	162	189	204	218	232	260	92	108	115	122	160	188	202	216	230	257
$10,001-$12,000	120	131	158	182	201	214	229	256	147	171	185	198	213	235	184	212	231	247	262	291	106	124	132	139	181	210	229	244	260	289
$12,001-$14,000	134	148	175	199	222	236	253	280	164	188	205	219	235	259	204	232	256	273	290	320	118	139	148	156	202	230	254	271	288	318
$14,001-$16,000	148	164	191	214	241	257	275	303	181	203	224	239	257	281	224	251	280	298	317	348	130	154	163	172	221	249	277	296	314	345
$16,001-$18,000	161	180	206	229	260	277	295	324	196	218	242	259	277	302	243	269	302	322	342	373	142	168	178	187	239	267	300	320	340	371
$18,001-$20,000	174	196	221	243	277	296	315	345	211	232	259	277	296	322	261	286	324	345	366	398	153	182	192	201	256	284	321	343	364	395
$20,001-$22,000	187	211	235	256	294	315	334	364	225	245	276	295	315	341	278	303	345	367	389	421	164	195	206	215	273	300	342	365	387	418
$22,001-$24,000	199	225	248	268	311	332	352	383	239	258	292	312	333	360	294	318	365	389	411	443	174	208	220	229	289	315	362	387	409	441
$24,001-$26,000	210	239	261	280	327	349	369	401	252	271	308	329	351	377	310	333	384	409	432	465	184	220	233	242	305	330	381	407	431	462
$26,001-$28,000	221	253	274	292	342	366	386	418	265	283	323	346	368	394	326	348	403	429	453	486	194	232	246	255	320	344	399	427	452	483
$28,001-$30,000	232	267	286	303	357	382	402	434	278	294	338	362	385	411	341	362	421	448	473	506	204	244	258	267	335	358	417	447	472	504
$30,001-$32,000	243	281	298	314	371	397	418	450	290	305	353	377	401	427	356	376	439	467	493	526	213	256	270	279	350	371	435	466	492	523
$32,001-$34,000	254	294	310	325	385	412	433	466	302	316	367	392	417	443	371	389	457	485	512	545	222	267	282	291	364	384	452	484	511	542
$34,001-$36,000	265	307	322	335	399	427	448	481	314	327	381	407	432	458	385	402	474	503	531	563	231	278	294	303	378	397	469	502	530	561
$36,001-$38,000	276	320	333	345	412	442	463	496	326	337	395	422	447	473	399	414	490	521	549	581	240	289	305	315	391	409	485	520	548	579
$38,001-$40,000	286	333	344	354	425	456	477	511	337	347	408	436	462	487	412	426	506	538	567	599	248	300	316	326	404	421	501	537	566	597
$40,001-$100,000 (See Step 3B)	14	17	17	18	21	23	24	26	17	17	20	22	23	24	21	21	25	27	28	30	12	15	16	16	20	21	25	27	28	30

Income	Vermont						Virginia [13]						Washington [14]				West Virginia				Wisconsin [15]				Wyoming [1]					
	Family size					Over	Family size					Over	Family size			Over	Family size			Over	Family size			Over	Family size					Over
	1	2	3	4	5	5	1	2	3	4	5	5	1&2	3&4	5	5	1&2	3&4	5	5	1&2	3&4	5	5	1	2	3	4	5	5
$1-$8,000	46	52	61	61	64	68	88	111	117	127	137	156	136	154	156	165	105	119	123	130	103	115	119	125	81	98	104	109	117	132
$8,001-$10,000	54	62	72	72	76	81	104	127	137	148	159	179	162	185	189	198	125	142	147	154	123	137	142	149	95	112	121	127	136	152
$10,001-$12,000	62	71	82	83	88	93	118	141	155	166	179	200	187	214	219	230	143	164	170	177	141	158	164	171	107	125	136	144	153	170
$12,001-$14,000	70	79	92	94	99	104	131	154	171	184	197	220	210	242	248	259	160	184	192	199	158	178	185	192	119	136	151	159	169	187
$14,001-$16,000	78	87	101	105	110	114	143	167	187	201	215	238	232	268	277	288	176	204	212	220	175	197	205	212	130	147	164	173	184	202
$16,001-$18,000	85	95	110	115	120	124	155	178	202	216	231	255	254	293	304	315	192	223	232	240	191	216	224	231	140	157	176	187	198	217
$18,001-$20,000	92	102	119	125	130	134	166	189	216	231	247	271	274	318	330	341	207	241	251	259	206	233	242	250	150	167	188	200	212	231
$20,001-$22,000	98	109	127	135	140	143	177	199	230	245	262	286	294	342	356	367	222	258	270	278	220	251	260	268	159	176	200	213	225	244
$22,001-$24,000	104	116	135	145	149	152	188	209	243	259	276	301	314	365	381	392	236	275	288	296	234	268	278	285	168	185	211	225	237	257
$24,001-$26,000	110	123	143	154	158	161	198	219	256	273	290	315	333	388	405	417	250	292	306	313	248	284	295	302	177	193	222	236	249	269
$26,001-$28,000	116	129	150	163	167	169	208	228	268	286	304	329	351	410	429	441	264	308	323	330	262	300	312	318	186	201	232	247	261	281
$28,001-$30,000	122	135	157	172	176	178	218	237	280	298	317	342	369	432	453	464	277	324	340	347	275	316	328	334	194	209	242	258	273	293
$30,001-$32,000	128	141	164	181	185	186	227	246	292	310	330	355	387	453	476	487	290	340	357	363	288	331	344	350	202	216	252	269	284	304
$32,001-$34,000	134	147	171	190	194	194	236	254	303	322	342	368	405	474	499	510	303	355	373	379	301	346	360	366	210	223	261	280	294	315
$34,001-$36,000	140	153	178	198	202	202	245	262	314	334	354	380	422	495	522	532	315	370	389	395	313	361	375	381	218	230	270	290	304	326
$36,001-$38,000	145	159	185	206	210	210	254	270	325	345	366	391	439	515	544	554	327	385	405	411	325	376	390	396	226	237	279	300	314	336
$38,001-$40,000	150	164	191	214	218	218	263	277	336	356	378	402	455	535	566	575	339	399	420	426	337	390	405	410	233	244	288	310	324	346
$40,001-$100,000 (See Step 3B)	8	8	10	11	11	11	13	14	17	18	19	20	23	27	28	29	17	20	21	21	17	20	20	21	12	12	14	16	16	17

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[11] The North Carolina table is based on a combined 4½ percent rate (3 state, 1½ local). If the ½ of 1 percent local sales tax is not paid, subtract 10 percent of the table amount.

[12] Local ⅜'s of 1 percent sales tax is included. If the ¼ of 1 percent county sales tax for transportation is paid all year, add 5 percent of the table amount. Otherwise, see footnote 1.

[13] Local 1 percent sales tax is included.

[14] The Washington table is based on a combined 7 percent rate (6.5 state, 0.5 local). For local sales tax, in addition to the ½ of 1 percent included in the table, see footnote 1.

[15] Sales tax paid on the purchase of natural gas or electricity (May through October) may be added to the table amounts.

How To Use Tele-Tax Information

Recorded Tax Information

IRS has recorded about 150 topics of tax information that answer many Federal tax questions. You can hear up to three topics on each call you make.

Automated Refund Information is available at selected locations after March 15. If it has been 10 weeks since you mailed your 1985 tax return, we will be able to check the status of your refund.

Tele-Tax is not a toll-free call. Long-distance charges apply if you call from outside the local dialing area of the numbers listed below. A complete list of these topics and instructions on how to use Tele-Tax are on the next page.

***Note:** Cities with a **1** or **2** before them only have Recorded Tax Information. Cities with a **1** before them can be called only if you have a push-button (tone signalling) phone. Cities with a **2** before them can be called if you have a rotary (dial) or push-button (pulse dial) phone. Cities with a **3** before them have Recorded Tax Information and Automated Refund Information and can be called by using any type of phone.*

ALABAMA

1 Birmingham, 251-9454
2 Birmingham, 251-3881
1 Huntsville, 534-5203
1 Mobile, 433-6993
1 Montgomery, 262-8304

ALASKA

1 Anchorage, 562-1848
3 Anchorage, 561-7417

ARIZONA

3 Phoenix, 252-4909
1 Tucson, 624-9042

ARKANSAS

1 Little Rock, 372-3891
3 Little Rock, 374-3117

CALIFORNIA

1 Bakersfield, 861-4105
1 Carson, 632-3555
1 El Monte, 571-6902
1 Fresno, 268-5395
3 Laguna Niguel, 643-4246
3 Los Angeles, 617-3177
3 Oakland, 839-4245
1 Oxnard, 485-7236
1 Riverside, 351-6769
1 Sacramento, 448-4367
3 Sacramento, 448-4556
1 San Diego, 293-5020
1 San Francisco, 863-4039
1 San Jose, 293-5606
3 San Jose, 279-0576
1 Santa Ana, 836-2974
1 Santa Maria, 928-7503
1 Santa Rosa, 528-6233
1 Stockton, 463-6005
1 Van Nuys, 904-6393
1 Visalia, 733-8194

COLORADO

1 Colorado Springs,
597-6344
3 Denver, 592-1118
1 Ft. Collins, 221-0658

CONNECTICUT

1 Bridgeport, 335-0070
1 Hartford, 547-0015
2 Hartford, 247-5500
1 New Haven, 777-4594
1 Waterbury, 754-4235

DELAWARE

1 Dover, 674-1118
1 Wilmington, 652-0272
3 Wilmington, 571-1097

DISTRICT of COLUMBIA

3 Call 628-2929

FLORIDA

1 Daytona Beach, 253-0669
1 Ft. Lauderdale, 523-3100
3 Jacksonville, 353-9579
1 Miami, 374-5144
2 Miami, 372-0397
1 Orlando, 422-0592
2 Orlando, 843-0762
1 St. Petersburg, 578-0424
1 Tallahassee, 222-0807
1 Tampa, 229-0815
1 West Palm Beach,
655-1996

GEORGIA

1 Albany, 435-1415
3 Atlanta, 331-6572
1 Augusta, 722-9068
1 Columbus, 327-0298
1 Macon, 745-2890
1 Savannah, 355-9632

HAWAII

1 Honolulu, 546-7162
3 Honolulu, 946-4100

IDAHO

1 Boise, 383-0034
3 Boise, 344-8628

ILLINOIS

1 Aurora, 851-2718
1 Bloomington, 828-6116
1 Champaign, 398-1779
3 Chicago, 886-9614
1 East St. Louis, 875-4050
1 Ottawa, 433-1568
1 Peoria, 637-9305
1 Quad Cities, 326-1720
1 Rockford, 987-4280
1 Springfield, 789-0489
3 Springfield, 753-0316

INDIANA

1 Evansville, 422-1026
1 Fort Wayne, 484-3065
1 Gary, 884-4465
3 Indianapolis, 634-1550
1 South Bend, 232-5459

IOWA

1 Cedar Rapids, 399-2210
1 Des Moines, 284-4271
3 Des Moines, 284-4050
1 Quad Cities, 326-1720
1 Waterloo, 234-0817

KANSAS

1 Wichita, 264-3147
3 Wichita, 262-4454

KENTUCKY

1 Erlanger, 727-3338
1 Lexington, 233-2889
1 Louisville, 582-5599
2 Louisville, 582-6372

LOUISIANA

1 New Orleans, 529-2854
2 New Orleans, 589-4620

MAINE

2 Augusta, 623-3854
1 Portland, 775-0465

MARYLAND

3 Baltimore, 244-7306
1 Cumberland, 722-5331
1 Frederick, 663-5798
1 Hagerstown, 733-6815
1 Salisbury, 742-9458

MASSACHUSETTS

3 Boston, 523-8602
1 Springfield, 739-6624

MICHIGAN

1 Ann Arbor, 665-4544
3 Detroit, 961-4282
1 Flint, 238-4599
1 Grand Rapids, 451-2034
1 Kalamazoo, 343-0255
1 Lansing, 372-2454
1 Mt. Clemens, 463-9550
1 Pontiac, 858-2336
1 Saginaw, 753-9911

MINNESOTA

1 Duluth, 722-5494
1 Rochester, 288-5595
3 St. Paul, 224-4288

MISSISSIPPI

1 Gulfport, 863-3302
1 Jackson, 960-4168
3 Jackson, 960-4808

MISSOURI

1 Jefferson City, 636-8312
1 Kansas City, 421-3741
1 Springfield, 883-3419
3 St. Louis, 241-4700

MONTANA

1 Billings, 656-1422
1 Great Falls, 727-4902
1 Helena, 443-7034
3 Helena, 443-0600

NEBRASKA

1 Lincoln, 471-5450
1 Omaha, 221-3324
3 Omaha, 345-8224

NEVADA

1 Las Vegas, 385-1778
3 Las Vegas, 388-6925

NEW HAMPSHIRE

1 Manchester, 623-5778
2 Portsmouth, 431-0780

NEW JERSEY

1 Atlantic City, 348-2636
1 Camden, 966-3412
1 Hackensack, 487-1817
3 Newark, 624-1223
1 Paterson, 278-5442
1 Trenton, 599-2150

NEW MEXICO

1 Albuquerque, 766-1102
3 Albuquerque, 243-4557

NEW YORK

1 Albany, 465-8318
2 Albany, 465-3566
1 Binghamton, 722-8426
3 Brooklyn, 858-4461
3 Buffalo, 856-9320
3 Manhattan, 406-4080
1 Mineola, 248-6790
1 Poughkeepsie, 452-1877
1 Rochester, 454-3330
1 Smithtown, 979-0720
1 Syracuse, 471-1630
1 White Plains, 683-0134

NORTH CAROLINA

1 Asheville, 254-3044
1 Charlotte, 567-9885
1 Durham, 541-5283
1 Fayetteville, 483-0735
1 Greensboro, 378-1572
2 Greensboro, 379-1168
1 Raleigh, 755-1498
1 Winston-Salem, 725-3013

NORTH DAKOTA

1 Bismarck, 258-8210
1 Fargo, 232-9360
3 Fargo, 232-1070
1 Grand Forks, 746-0324
1 Minot, 838-1234

OHIO

1 Akron, 253-1170
1 Canton, 455-6061
3 Cincinnati, 421-0329
3 Cleveland, 522-3037
1 Columbus, 469-2266
1 Dayton, 225-7237
1 Lima, 224-0341
1 Mansfield, 525-3474
1 Toledo, 255-3743
1 Youngstown, 744-4200

OKLAHOMA

1 Oklahoma City, 235-3434
3 Oklahoma City, 235-4907
1 Tulsa, 599-0555

OREGON

1 Eugene, 687-6737
3 Portland, 294-5363
1 Salem, 399-5784

PENNSYLVANIA

1 Bethlehem, 861-0325
1 Erie, 459-7419
1 Harrisburg, 236-1356
1 Jenkintown, 887-1261
1 Lancaster, 392-0980
1 Norristown, 275-0242
3 Philadelphia, 592-8946
1 Pittsburgh, 281-3120
2 Pittsburgh, 281-3138
1 Reading, 373-4568
1 Scranton, 961-0325
1 Wilkes-Barre, 823-9552
1 Williamsport, 323-4242

PUERTO RICO

1 & 2 Call 753-4055

RHODE ISLAND

1 Providence, 861-5220
2 Providence, 521-6440

SOUTH CAROLINA

1 Charleston, 722-0369
1 Columbia, 254-4749
3 Columbia, 799-8169
1 Greenville, 235-8093

SOUTH DAKOTA

3 Aberdeen, 229-6856
1 Brookings, 692-4507
1 Rapid City, 348-3454
1 Sioux Falls, 335-7081
1 Watertown, 882-4979

TENNESSEE

1 Chattanooga, 892-5577
1 Jackson, 664-1858
1 Johnson City, 282-1917
1 Knoxville, 521-7478
1 Memphis, 525-2611
3 Nashville, 242-1541

TEXAS

1 Austin, 479-0391
3 Austin, 478-6422
3 Dallas, 767-1792
1 El Paso, 778-9907
1 Ft. Worth, 334-3888
3 Houston, 850-8801
1 San Antonio, 680-9591

UTAH

1 Salt Lake City, 355-9328
3 Salt Lake City, 359-9218

VERMONT

1 Burlington, 658-0007
2 Burlington, 658-1149

VIRGINIA

3 Bailey's Crossroads,
557-0034
1 Bristol, 669-0565
1 Danville, 797-2223
1 Norfolk, 441-3623
1 Richmond, 771-2369
2 Richmond, 771-2165
1 Roanoke, 982-6062

WASHINGTON

3 Seattle, 343-7221
1 Spokane, 455-9213
1 Tacoma, 383-4668

WEST VIRGINIA

1 Charleston, 343-3597
1 Huntington, 523-0104
3 Parkersburg, 422-4011

WISCONSIN

1 Eau Claire, 834-6121
1 Green Bay, 433-3884
1 Madison, 264-5349
3 Milwaukee, 291-1783
1 Racine, 886-1615

WYOMING

1 Cheyenne, 634-1198
3 Cheyenne, 638-6109

How To Use Tele-Tax

Recorded Tax Information

1. Select, by number, the topic you wish to hear.
2. Have paper and pencil handy to take notes.
3. Call the appropriate phone number.
4. ● If you have a push-button (tone signalling) phone, follow the recorded instructions, or
   ● If you have a rotary (dial) or push-button (pulse dial) phone, ask the IRS operator for the topic number you want to hear.
5. ● Push-button (tone signalling) service is available 24 hours a day, 7 days a week.
   ● Rotary (dial)/push-button (pulse dial) service is available Monday through Friday during regular office hours. (In Hawaii, from 6:30 A.M. to 1:00 P.M.)

Automated Refund Information

1. Have a copy of your tax return available since you will need to know the first social security number shown on your return, the filing status, and the exact amount of your refund.
2. Call the appropriate phone number.
3. Follow the recorded instructions.
4. ● Push-button (tone signalling) service is available Monday through Friday from 6:30 A.M. to 7 P.M. (Hours may vary in your area.)
   ● Rotary (dial)/push-button (pulse dial) service is available Monday through Friday during regular office hours. (In Hawaii, from 6:30 A.M. to 1:00 P.M.)

Tele-Tax Topic Numbers and Subjects

Topic No.	Subject
	IRS Procedures and Services
100	IRS help available—Volunteer tax assistance programs, toll-free telephone, walk-in assistance, and outreach program
101	Tax assistance for handicapped individuals and the deaf
102	Small business tax workshops—Tax help for the new business person
103	Problem resolution program—Special help for problem situations
104	Public libraries—Tax information tapes and reproducible tax forms
105	Examination procedures and how to prepare for an audit
106	The collection process
107	Tax fraud—How to report
108	Special enrollment examination to practice before IRS
109	Organizations—How to apply for exempt status
	Filing Requirements, Filing Status, Exemptions
110	Who must file?
111	Which form—1040, 1040A, or 1040EZ?
112	When, where, and how to file
113	Filing requirements for a dependent child
114	Filing as single
115	Filing joint or separate
116	Filing as head of household
117	Filing as qualifying widow/widower
118	Filing status for separated individuals
119	Exemptions for age and blindness
120	Dependent—Who can be claimed?
121	Dependent child—Divorced or separated parents
122	Dependent—Items to include in determining support
126	Estimated tax
127	Amended returns
128	Decedents
	Types of Income
130	Wages and salaries
131	Tips
132	Interest received
133	Dividends and dividend exclusion
134	Refund of state and local taxes
135	Alimony received
136	Business income
137	Sole proprietorship
138	Capital gains and losses
139	Pensions and annuities
140	Pensions—The general rule
141	Lump-sum distributions—Profit-sharing plans
143	Rental income and expenses
200	Renting vacation property/Renting to relatives
201	Royalties
202	Farming and fishing income
203	Earnings for clergy members
204	Unemployment compensation
205	Gambling income and expenses
206	Bartering income
207	Scholarships, fellowships, and grants
208	Nontaxable income
209	Social security and tier 1 railroad retirement taxability
210	Social Security Benefit Statement-Form SSA-1099
	Adjustments to Income
211	Charitable contributions deduction for those who do not itemize
212	Deduction for married couples when both work
213	Moving expenses
214	Employee business expenses
215	Business use of car
216	Business travel expenses
217	Business entertainment expenses
218	Individual retirement accounts (IRA's)
219	Alimony paid
225	Bad debt deduction
226	Tax shelters
	Itemized Deductions
227	Should I itemize?
228	Medical and dental expenses
229	Medical insurance
231	Taxes
232	Sales tax
233	Interest expense
234	Contributions
235	Casualty losses
236	Miscellaneous expenses
237	Office-in-the-home expenses
238	Educational expenses
	Tax Computation
240	Tax table/Tax rate schedules
243	Tax and credits figured by IRS
244	Income averaging
300	Self-employment tax
301	Ten-year averaging for lump-sum distributions
303	Alternative minimum tax
304	Gift tax
305	Estate tax
	Tax Credits
306	Child care credit
307	Earned income credit
308	Residential energy credit
309	Credit for the elderly and the permanently and totally disabled
310	Tax credit for contributions to candidates for public office
311	Investment credit
312	Qualified royalty owners exemption (windfall profit tax)
	General Information
314	Substitute tax forms
315	Highlights of 1985 tax changes
316	Refunds—How long they should take
317	Copy of your tax return—How to get one
318	Forms/Publications—How to order
319	Tax shelter registration
320	Extensions for time to file your tax return
325	Form W-2—What to do if not received
327	IRS notices and bills/Penalty and interest charges
328	Tax benefits for low income Americans
329	Penalty for underpayment of estimated tax—Form 2210
330	Recordkeeping
331	How to choose a tax preparer
332	Audit appeal rights
333	Failure to pay child/spousal support
335	Withholding on interest and dividends
336	Highway use tax
337	Checklist/Common errors when preparing your tax return
338	Withholding on pensions and annuities
339	Your tax form is overdue—Let us hear from you
340	Second request for information about your tax form
341	Notice of intent to levy
342	Notice of underreported income—CP2000
	Basis of Assets, Depreciation, Sale of Assets
343	Sale of personal residence—General
344	Sale of personal residence—How to report gain
400	Sale of personal residence—Exclusion of gain, age 55 and over
401	Basis of assets
402	Depreciation—General
403	Depreciation—Accelerated cost recovery system
404	Installment sales
	Employer Tax Information
406	Social security withholding rates
407	Form W-2—Where, when and how to file
408	Form W-4—Employee's Withholding Allowance Certificate
409	Federal tax deposits—General
410	Employer identification number—How to apply
411	Paying taxes on your employees
412	Form 942—Employer's Quarterly Tax Return for Household Employees
413	Form 941—Deposit requirements
414	Form 941—Employer's Quarterly Federal Tax Return
415	Form 940—Deposit requirements
416	Form 940—Employer's Annual Federal Unemployment Tax Return
417	Targeted jobs credit
418	Tips—Withholding and reporting
	Tax Information for Aliens and U.S. Citizens Living Abroad
420	Resident and nonresident aliens
425	Dual-status alien
426	Alien tax clearance
428	Foreign earned income exclusion—General
429	Foreign earned income exclusion—Who qualifies?
430	Foreign earned income exclusion—What income qualifies?
431	Foreign tax credit
	The following topics are in Spanish
433	Who must file?
434	Which form to use?
435	Filing status—Single, married filing jointly, and married filing separately
436	Filing status—Head of household and qualifying widow/ widower
437	Earned income credit
438	Highlights of 1985 tax changes
439	Forms and publications—How to order
440	Alien tax clearance
441	Refunds—How long they should take
442	IRS help available— Volunteer tax assistance programs, toll-free telephone, walk-in assistance, and outreach program
443	Social security and tier 1 railroad retirement taxability
444	Social Security Benefit Statement—Form SSA-1099

Privacy Act and Paperwork Reduction Act Notice

The Privacy Act of 1974 and Paperwork Reduction Act of 1980 say that when we ask you for information, we must tell you: our legal right to ask for the information; what major purposes we have in asking for it and how it will be used; what could happen if we do not receive it; and whether your response is voluntary, required to obtain a benefit, or mandatory under the law.

For the Internal Revenue Service, the laws include tax returns and any papers filed with them and any questions we need to ask you so we can complete, correct, or process your return; figure your tax; and collect tax, interest, or penalties.

Our legal right to ask for information is Internal Revenue Code sections 6001 and 6011 and their regulations. They say that you must file a return or statement with us for any tax you are liable for. Your response is mandatory under these sections. Code section 6109 and its regulations say that you must show your social security number on what you file. This is so we know who you are, and can process your return and papers. You must fill in all parts of the tax form that apply to you. But you do not have to check the boxes for the Presidential Election Campaign Fund.

We ask for tax return information to carry out the Internal Revenue laws of the United States. We need it to figure and collect the right amount of tax.

We may give the information to the Department of Justice and to other Federal agencies, as provided by law. We may also give it to states, the District of Columbia, and U.S. commonwealths or possessions to carry out their tax laws. And we may give it to foreign governments because of tax treaties they have with the United States.

If you do not file a return, do not provide the information we ask for, or provide fraudulent information, the law provides that you may be charged penalties and, in certain cases, you may be subject to criminal prosecution. We may also have to disallow the exemptions, exclusions, credits, deductions, or adjustments shown on the tax return. This could make the tax higher or delay any refund. Interest may also be charged.

Please keep this notice with your records. It may help you if we ask you for other information. If you have questions about the rules for filing and giving information, please call or visit any Internal Revenue Service office.

1985 Earned Income Credit Table

Caution: This is Not a Tax Table

To find your earned income credit: Read down the column titled "If line 3 or 4 of the worksheet is—" and find the appropriate amount from the Earned Income Credit Worksheet on page 16. Read across to the right and find the amount of the earned income credit. Enter that amount on line 5 or 6 of the worksheet, whichever applies.

If line 3 or 4 of the worksheet is—		Your earned income credit is—	If line 3 or 4 of the worksheet is—		Your earned income credit is—	If line 3 or 4 of the worksheet is—		Your earned income credit is—	If line 3 or 4 of the worksheet is—		Your earned income credit is—	If line 3 or 4 of the worksheet is—		Your earned income credit is—
Over	But not over		Over	But not over		Over	But not over		Over	But not over		Over	But not over	
$0	$50	$3	$2,000	$2,050	$223	$4,000	$4,050	$443	$7,450	$7,500	$431	$9,450	$9,500	$186
50	100	8	2,050	2,100	228	4,050	4,100	448	7,500	7,550	425	9,500	9,550	180
100	150	14	2,100	2,150	234	4,100	4,150	454	7,550	7,600	419	9,550	9,600	174
150	200	19	2,150	2,200	239	4,150	4,200	459	7,600	7,650	413	9,600	9,650	168
200	250	25	2,200	2,250	245	4,200	4,250	465	7,650	7,700	406	9,650	9,700	162
250	300	30	2,250	2,300	250	4,250	4,300	470	7,700	7,750	400	9,700	9,750	156
300	350	36	2,300	2,350	256	4,300	4,350	476	7,750	7,800	394	9,750	9,800	150
350	400	41	2,350	2,400	261	4,350	4,400	481	7,800	7,850	388	9,800	9,850	144
400	450	47	2,400	2,450	267	4,400	4,450	487	7,850	7,900	382	9,850	9,900	138
450	500	52	2,450	2,500	272	4,450	4,500	492	7,900	7,950	376	9,900	9,950	131
500	550	58	2,500	2,550	278	4,500	4,550	498	7,950	8,000	370	9,950	10,000	125
550	600	63	2,550	2,600	283	4,550	4,600	503	8,000	8,050	364	10,000	10,050	119
600	650	69	2,600	2,650	289	4,600	4,650	509	8,050	8,100	358	10,050	10,100	113
650	700	74	2,650	2,700	294	4,650	4,700	514	8,100	8,150	351	10,100	10,150	107
700	750	80	2,700	2,750	300	4,700	4,750	520	8,150	8,200	345	10,150	10,200	101
750	800	85	2,750	2,800	305	4,750	4,800	525	8,200	8,250	339	10,200	10,250	95
800	850	91	2,800	2,850	311	4,800	4,850	531	8,250	8,300	333	10,250	10,300	89
850	900	96	2,850	2,900	316	4,850	4,900	536	8,300	8,350	327	10,300	10,350	83
900	950	102	2,900	2,950	322	4,900	4,950	542	8,350	8,400	321	10,350	10,400	76
950	1,000	107	2,950	3,000	327	4,950	5,000	547	8,400	8,450	315	10,400	10,450	70
1,000	1,050	113	3,000	3,050	333	5,000	6,500	550	8,450	8,500	309	10,450	10,500	64
1,050	1,100	118	3,050	3,100	338	6,500	6,550	547	8,500	8,550	303	10,500	10,550	58
1,100	1,150	124	3,100	3,150	344	6,550	6,600	541	8,550	8,600	296	10,550	10,600	52
1,150	1,200	129	3,150	3,200	349	6,600	6,650	535	8,600	8,650	290	10,600	10,650	46
1,200	1,250	135	3,200	3,250	355	6,650	6,700	529	8,650	8,700	284	10,650	10,700	40
1,250	1,300	140	3,250	3,300	360	6,700	6,750	523	8,700	8,750	278	10,700	10,750	34
1,300	1,350	146	3,300	3,350	366	6,750	6,800	516	8,750	8,800	272	10,750	10,800	28
1,350	1,400	151	3,350	3,400	371	6,800	6,850	510	8,800	8,850	266	10,800	10,850	21
1,400	1,450	157	3,400	3,450	377	6,850	6,900	504	8,850	8,900	260	10,850	10,900	15
1,450	1,500	162	3,450	3,500	382	6,900	6,950	498	8,900	8,950	254	10,900	10,950	9
1,500	1,550	168	3,500	3,550	388	6,950	7,000	492	8,950	9,000	248	10,950	10,999	3
1,550	1,600	173	3,550	3,600	393	7,000	7,050	486	9,000	9,050	241			
1,600	1,650	179	3,600	3,650	399	7,050	7,100	480	9,050	9,100	235	**$11,000 or more—you cannot take the credit**		
1,650	1,700	184	3,650	3,700	404	7,100	7,150	474	9,100	9,150	229			
1,700	1,750	190	3,700	3,750	410	7,150	7,200	468	9,150	9,200	223			
1,750	1,800	195	3,750	3,800	415	7,200	7,250	461	9,200	9,250	217			
1,800	1,850	201	3,800	3,850	421	7,250	7,300	455	9,250	9,300	211			
1,850	1,900	206	3,850	3,900	426	7,300	7,350	449	9,300	9,350	205			
1,900	1,950	212	3,900	3,950	432	7,350	7,400	443	9,350	9,400	199			
1,950	2,000	217	3,950	4,000	437	7,400	7,450	437	9,400	9,450	193			

To Call IRS Toll-Free for Answers to Your Federal Tax Questions, Use Only the Number Listed Below for Your Area

***Caution:** "Toll-free" is a telephone call for which you pay only local charges with no long-distance charge. Please use a local city number only if it is not a long-distance call for you. Otherwise, use the general toll-free number given.*

We are happy to answer questions to help you prepare your return. But you should know that you are responsible for the accuracy of your return. If we do make an error, you are still responsible for the payment of the correct tax.

To make sure that IRS employees give courteous responses and correct information to taxpayers, a second IRS employee sometimes listens in on telephone calls. No record is kept of any taxpayer's name, address, or social security number.

If you find it necessary to write instead of calling, please address your letter to your IRS District Director for a prompt reply. Make sure you include your social security number or taxpayer identifying number when you write.

The IRS has a telephone service called Tele-Tax. It provides automated refund information and recorded tax information on about 150 topics covering such areas as filing requirements, dependents, itemized deductions, and tax credits. Tele-Tax is available 24 hours a day, 7 days a week, to taxpayers using push-button (tone signalling) telephones, and Monday through Friday, during office hours, to taxpayers using push-button (pulse dial) or rotary (dial) phones. See Tele-Tax Information in the index for the page numbers that contain telephone numbers, available topics, and instructions describing how to use this service.

ALABAMA
Call 1-800-424-1040

ALASKA
Anchorage, 561-7484
Elsewhere in Alaska, call operator and ask for Zenith 3700

ARIZONA
Phoenix, 257-1233

ARKANSAS
Call 1-800-424-1040

CALIFORNIA
Please call the telephone number shown in the white pages of your local telephone directory under U.S. Government, Internal Revenue Service, Federal Tax Assistance.

COLORADO
Denver, 825-7041

CONNECTICUT
Call 1-800-424-1040

DELAWARE
Wilmington, 573-6400

DISTRICT of COLUMBIA
Call 488-3100

FLORIDA
Jacksonville, 354-1760

GEORGIA
Atlanta, 522-0050

HAWAII
Oahu, 546-8660
All other islands, 1-800-232-2511

IDAHO
Call 1-800-424-1040

ILLINOIS
Chicago, 435-1040

INDIANA
Indianapolis, 269-5477

IOWA
Des Moines, 283-0523

KANSAS
Call 1-800-424-1040

KENTUCKY
Call 1-800-424-1040

LOUISIANA
Call 1-800-424-1040

MAINE
Call 1-800-424-1040

MARYLAND
Baltimore, 962-2590
Montgomery County, 488-3100
Prince George's County, 488-3100

MASSACHUSETTS
Boston, 523-1040

MICHIGAN
Detroit, 237-0800

MINNESOTA
Minneapolis, 291-1422
St. Paul, 291-1422

MISSISSIPPI
Call 1-800-424-1040

MISSOURI
St. Louis, 342-1040

MONTANA
Call 1-800-424-1040

NEBRASKA
Omaha, 422-1500

NEVADA
Call 1-800-424-1040

NEW HAMPSHIRE
Call 1-800-424-1040

NEW JERSEY
Newark, 622-0600

NEW MEXICO
Call 1-800-424-1040

NEW YORK
Bronx, 732-0100
Brooklyn, 596-3770
Buffalo, 855-3955
Manhattan, 732-0100
Nassau, 222-1131
Queens, 596-3770
Rockland County, 997-1510
Staten Island, 732-0100
Suffolk, 724-5000
Westchester County, 997-1510

NORTH CAROLINA
Greensboro, 274-3711

NORTH DAKOTA
Call 1-800-424-1040

OHIO
Cincinnati, 621-6281
Cleveland, 522-3000

OKLAHOMA
Call 1-800-424-1040

OREGON
Eugene, 485-8286
Portland, 221-3960
Salem, 581-8721

PENNSYLVANIA
Philadelphia, 574-9900
Pittsburgh, 281-0112

PUERTO RICO
San Juan Metro Area, 753-4040
Isla DDD, 753-4549

RHODE ISLAND
Call 1-800-424-1040

SOUTH CAROLINA
Call 1-800-424-1040

SOUTH DAKOTA
Call 1-800-424-1040

TENNESSEE
Nashville, 259-4601

TEXAS
Austin, 472-1974
Corpus Christi, 888-9431
Dallas, 742-2440
El Paso, 532-6116
Ft. Worth, 263-9229
Houston, 965-0440
San Antonio, 229-1700

UTAH
Call 1-800-424-1040

VERMONT
Call 1-800-424-1040

VIRGINIA
Bailey's Crossroads, 557-9230
Richmond, 649-2361

WASHINGTON
Seattle, 442-1040

WEST VIRGINIA
Call 1-800-424-1040

WISCONSIN
Milwaukee, 271-3780

WYOMING
Call 1-800-424-1040

Note: If there is no number listed for your specific area, please call 1-800-424-1040.

Telephone Assistance Services for Deaf Taxpayers Who Have Access to TV / Telephone—TTY Equipment.

Hours of Operation

8:00 A.M. to 6:45 P.M. EST (Filing Season)

8:00 A.M. to 4:30 P.M. EST (Nonfiling Season)

Indiana residents, 1-800-382-4059

Elsewhere in U.S., including Alaska, Hawaii, Virgin Islands, and Puerto Rico, 1-800-428-4732

Toll-Free "Forms Only" Telephone Numbers

If you only need to order tax forms and publications and do not have any tax questions, please call the number listed below for your area.

ALASKA
Anchorage, 563-5313
Elsewhere in Alaska, call operator and ask for Zenith 3700

ARIZONA
Phoenix, 257-9722
Tucson, 882-0730

CALIFORNIA
Please call the telephone number shown in the white pages of your local telephone directory under U.S. Government, Internal Revenue Service, Federal Tax Assistance.

COLORADO
Denver, 825-7041

GEORGIA
Atlanta, 331-6023

HAWAII
Honolulu, 546-7300
All other islands, 1-800-232-2511

ILLINOIS
Chicago, 435-1040

INDIANA
Indianapolis, 269-5477

IOWA
Des Moines, 283-0523

MICHIGAN
Detroit, 237-0794

MINNESOTA
St. Paul, 224-7461

MISSOURI
Kansas City, 421-2330
St. Louis, 231-6505

NEBRASKA
Omaha, 221-3321

OHIO
Cincinnati, 621-6281
Cleveland, 522-3000

OREGON
Eugene, 485-8286
Portland, 221-3933
Salem, 581-8721

PUERTO RICO
San Juan Metro Area, 753-4040
Isla DDD, 753-4549

TEXAS
Austin, 472-1974
Corpus Christi, 888-9431
Dallas, 742-2440
El Paso, 532-6116
Ft. Worth, 263-9229
Houston, 965-0440
San Antonio, 229-1700

VIRGINIA
Richmond, 329-1052

WASHINGTON
Seattle, 442-5100

WISCONSIN
Milwaukee, 291-3244

Note: If there is no number listed for your state or specific area, please call **1-800-424-FORM (3676).**

How To Get Forms

Generally, we mail forms and schedules directly to you based on what seems to be right for you. Schedules and forms you may need are listed below.

To save time, you can get the following items at many participating banks, post offices, and public libraries, or order them from IRS:

Form 1040, U.S. Individual Income Tax Return
Instructions for Form 1040

Form 1040A
Instructions for Form 1040A

Form 1040EZ
Instructions for Form 1040EZ

Schedule A for itemized deductions

Schedule B for interest income if more than $400; for dividends and other distributions on stock if more than $400; and for answering the Foreign Accounts or Foreign Trusts Questions

Schedule W for the deduction for a married couple when both work

You can photocopy the following items (as well as those listed above) at many participating public libraries or order them from IRS:

Schedule C, Profit or (Loss) From Business or Profession

Schedule D, Capital Gains and Losses and Reconciliation of Forms 1099-B

Schedule E, Supplemental Income Schedule

Schedule F, Farm Income and Expenses

Schedule G, Income Averaging

Schedule R, Credit for the Elderly and the Permanently and Totally Disabled

Schedule SE, Computation of Social Security Self-Employment Tax

Form1040-ES, Estimated Tax for Individuals

Form 2106, Employee Business Expenses

Form 2119, Sale or Exchange of Principal Residence

Form 2210, Underpayment of Estimated Tax by Individuals

Form 2441, Credit for Child and Dependent Care Expenses

Form 3468, Computation of Investment Credit

Form 3903, Moving Expense Adjustment

Form 4136, Computation of Credit for Federal Tax on Gasoline and Special Fuels

Form 4562, Depreciation and Amortization

Form 4684, Casualties and Thefts

Form 4797, Gains and Losses From Sales or Exchanges of Assets Used in a Trade or Business and Involuntary Conversions

Form 4868, Application for Automatic Extension of Time To File U.S. Individual Income Tax Return

Form 5695, Residential Energy Credit

Form 8283, Noncash Charitable Contributions

Form 8332, Release of Claim to Exemption for Child of Divorced or Separated Parents

How To Get Publications

You can read or photocopy the following publications at many participating public libraries or order them from IRS:

17	Your Federal Income Tax
54	Tax Guide for U.S. Citizens and Resident Aliens Abroad
334	Tax Guide for Small Business
463	Travel, Entertainment, and Gift Expenses
501	Exemptions
502	Medical and Dental Expenses
503	Child and Dependent Care Credit, and Employment Taxes for Household Employers
504	Tax Information for Divorced or Separated Individuals
505	Tax Withholding and Estimated Tax
506	Income Averaging
508	Educational Expenses
521	Moving Expenses
523	Tax Information on Selling Your Home
524	Credit for the Elderly and the Permanently and Totally Disabled
525	Taxable and Nontaxable Income
526	Charitable Contributions
527	Rental Property
529	Miscellaneous Deductions
530	Tax Information for Owners of Homes, Condominiums, and Cooperative Apartments
531	Reporting Income From Tips
533	Self-Employment Tax
545	Interest Expense
547	Nonbusiness Disasters, Casualties, and Thefts
550	Investment Income and Expenses
552	Recordkeeping for Individuals and a List of Tax Publications
553	Highlights of 1985 Tax Changes
554	Tax Information for Older Americans
575	Pension and Annuity Income
583	Information for Business Taxpayers
587	Business Use of Your Home
590	Individual Retirement Arrangements (IRAs)
596	Earned Income Credit
903	Energy Credits for Individuals
905	Tax Information on Unemployment Compensation
907	Tax Information for Handicapped and Disabled Individuals
910	Taxpayer's Guide to IRS Information, Assistance and Publications
915	Tax Information on Social Security Benefits (and Tier 1 Railroad Retirement Benefits)

Other publications and forms referred to in the instructions are also available without cost from the "Forms Distribution Center" for your state.

Where To Send Your Order for Free Forms and Publications

Please send your order to the "Forms Distribution Center" for your state. If there is more than one Center for your state, send the order to the Center nearest you.

Alabama—Caller No. 848, Atlanta, GA 30370
Alaska—P.O. Box 12626, Fresno, CA 93778
Arizona—P.O. Box 2924, Austin, TX 78769
Arkansas—P.O. Box 6900, Florence, KY 41042
California—P.O. Box 12626, Fresno, CA 93778
Colorado—P.O. Box 2924, Austin, TX 78769
Connecticut—P.O. Box 25866, Richmond, VA 23260
Delaware—P.O. Box 25866, Richmond, VA 23260
District of Columbia—P.O. Box 25866, Richmond, VA 23260
Florida—Caller No. 848, Atlanta, GA 30370
Georgia—Caller No. 848, Atlanta, GA 30370
Hawaii—P.O. Box 12626, Fresno, CA 93778
Idaho—P.O. Box 12626, Fresno, CA 93778
Illinois—P.O. Box 338, Kansas City, MO 64141
Indiana—P.O. Box 6900, Florence, KY 41042
Iowa—P.O. Box 338, Kansas City, MO 64141
Kansas—P.O. Box 2924, Austin, TX 78769
Kentucky—P.O. Box 6900, Florence, KY 41042
Louisiana—P.O. Box 6900, Florence, KY 41042
Maine—P.O. Box 25866, Richmond, VA 23260
Maryland—P.O. Box 25866, Richmond, VA 23260
Massachusetts—P.O. Box 25866, Richmond, VA 23260
Michigan—P.O. Box 6900, Florence, KY 41042
Minnesota—P.O. Box 338, Kansas City, MO 64141
Mississippi—Caller No. 848, Atlanta, GA 30370
Missouri—P.O. Box 338, Kansas City, MO 64141
Montana—P.O. Box 338, Kansas City, MO 64141
Nebraska—P.O. Box 338, Kansas City, MO 64141
Nevada—P.O. Box 12626, Fresno, CA 93778
New Hampshire—P.O. Box 25866, Richmond, VA 23260
New Jersey—P.O. Box 25866, Richmond, VA 23260
New Mexico—P.O. Box 2924, Austin, TX 78769
New York—P.O. Box 25866, Richmond, VA 23260
North Carolina—Caller No. 848, Atlanta, GA 30370
North Dakota—P.O. Box 338, Kansas City, MO 64141
Ohio—P.O. Box 6900, Florence, KY 41042
Oklahoma—P.O. Box 2924, Austin, TX 78769
Oregon—P.O. Box 12626, Fresno, CA 93778
Pennsylvania—P.O. Box 25866, Richmond, VA 23260
Rhode Island—P.O. Box 25866, Richmond, VA 23260
South Carolina—Caller No. 848, Atlanta, GA 30370
South Dakota—P.O. Box 338, Kansas City, MO 64141
Tennessee—Caller No. 848, Atlanta, GA 30370
Texas—P.O. Box 2924, Austin, TX 78769
Utah—P.O. Box 2924, Austin, TX 78769
Vermont—P.O. Box 25866, Richmond, VA 23260
Virginia—P.O. Box 25866, Richmond, VA 23260
Washington—P.O. Box 12626, Fresno, CA 93778
West Virginia—P.O. Box 6900, Florence, KY 41042
Wisconsin—P.O. Box 338, Kansas City, MO 64141
Wyoming—P.O. Box 2924, Austin, TX 78769

Foreign Addresses—Taxpayers with mailing addresses in foreign countries should send this order blank to either: Forms Distribution Center, Caller No. 848, Atlanta, GA 30370 or Forms Distribution Center, P.O. Box 12626, Fresno, CA 93778, whichever is closer. Send letter requests for other forms and publications to: Richmond Distribution Center, P.O. Box 25866, Richmond, VA 23260.

Puerto Rico—Director's Representative, U.S. Internal Revenue Service, Federal Office Building, Chardon Street, Hato Rey, PR 00918

Virgin Islands—V. I. Bureau of Internal Revenue, P.O. Box 3186, St. Thomas, VI 00801

DETACH AT THIS LINE

Order Blank—The forms and publications listed here are available at no cost. We will send you 2 copies of each form and 1 copy of each set of instructions or publication you circle. Please cut the order blank on the dotted line and **be sure to print or type your name and address accurately on the other side.** This will be the label used to return material to you. Enclose this order blank in your own envelope and address your envelope to the IRS address shown above for your state. To help reduce waste, please order only the forms and publications you think you will need to prepare your return. Attach a separate sheet of paper listing the additional forms and other publications you may need that are not listed on the order blank. Be sure to allow 10 days to receive your order.

Circle Desired Forms and Publications		Schedule G (1040)	2119	4562	5695	Pub. 521	Pub. 545
		Schedule R (1040)	2210	4562 Instructions	Pub. 463	Pub. 523	Pub. 552
1040	Schedules A&B (1040)	Schedule R Instructions	2441	4684	Pub. 501	Pub. 524	Pub. 553
Instructions for 1040 & Schedules	Schedule C (1040)	Schedule SE (1040)	3468	4684 Instructions	Pub. 502	Pub. 526	Pub. 554
1040A	Schedule D (1040)	Schedule W (1040)	3468 Instructions	4797	Pub. 503	Pub. 527	Pub. 903
1040EZ	Schedule E (1040)	1040-ES (1986)	3903	4797 Instructions	Pub. 504	Pub. 529	
1040A & 1040EZ Instructions	Schedule F (1040)	2106	4136	4868	Pub. 506	Pub. 530	

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DETACH AT THIS LINE

Do not use the envelope we furnished you in your income tax package because this envelope may be used only for filing your income tax return.

Print or type your name and address on this label. It will be used to speed your order for forms to you.

Name

Number and street

City or town, state, and ZIP code

Save Time! Participating public libraries have IRS tax forms available for copying and reference sets of Tax Information Publications. Also, participating banks, post offices, and libraries stock Forms 1040, 1040A, 1040EZ, their Instructions, and Schedules A&B and W.

SCHEDULES A&B (Form 1040)
Department of the Treasury
Internal Revenue Service (X)

Schedule A—Itemized Deductions

(Schedule B is on back)
▶ Attach to Form 1040. ▶ See Instructions for Schedules A and B (Form 1040).

OMB No. 1545-0074
1985
07

Name(s) as shown on Form 1040

Your social security number

Medical and Dental Expenses	1	Prescription medicines and drugs; and insulin	1			
(Do not include expenses reimbursed or paid by others.)	2 a	Doctors, dentists, nurses, hospitals, insurance premiums you paid for medical and dental care, etc.	2a			
	b	Transportation and lodging	2b			
(See Instructions on page 19.)	c	Other (list—include hearing aids, dentures, eyeglasses, etc.) ▶	2c			
	3	Add lines 1 through 2c, and write the total here	3			
	4	Multiply the amount on Form 1040, line 33, by 5% (.05)	4			
	5	Subtract line 4 from line 3. If zero or less, write -0-. **Total** medical and dental ▶			5	
Taxes You Paid	6	State and local income taxes	6			
	7	Real estate taxes	7			
(See Instructions on page 20.)	8 a	General sales tax (see sales tax tables in instruction booklet)	8a			
	b	General sales tax on motor vehicles	8b			
	9	Other taxes (list—include personal property taxes) ▶	9			
	10	Add the amounts on lines 6 through 9. Write the total here. **Total** taxes ▶			10	
Interest You Paid	11 a	Home mortgage interest you paid to financial institutions	11a			
	b	Home mortgage interest you paid to individuals (show that person's name and address) ▶	11b			
(See Instructions on page 20.)	12	Total credit card and charge account interest you paid	12			
	13	Other interest you paid (list) ▶	13			
	14	Add the amounts on lines 11a through 13. Write the total here. **Total** interest ▶			14	
Contributions You Made	15 a	Cash contributions. (If you gave $3,000 or more to any one organization, report those contributions on line 15b.)	15a			
(See Instructions on page 21.)	b	Cash contributions totaling $3,000 or more to any one organization. (Show to whom you gave and how much you gave.) ▶	15b			
	16	Other than cash. (You must attach Form 8283 if over $500.)	16			
	17	Carryover from prior year	17			
	18	Add the amounts on lines 15a through 17. Write the total here. **Total** contributions ▶			18	
Casualty and Theft Losses	19	Total casualty or theft loss(es). (You must attach Form 4684 or similar statement.) (See page 21 of Instructions.) ▶			19	
Miscellaneous Deductions	20	Union and professional dues	20			
	21	Tax return preparation fee	21			
(See Instructions on page 21.)	22	Other (list type and amount) ▶	22			
	23	Add the amounts on lines 20 through 22. Write the total here. **Total** miscellaneous ▶			23	
Summary of Itemized Deductions	24	Add the amounts on lines 5, 10, 14, 18, 19, and 23. Write your answer here			24	
(See Instructions on page 22.)	25	If you checked Form 1040 { Filing Status box 2 or 5, write $3,540 Filing Status box 1 or 4, write $2,390 Filing Status box 3, write $1,770 }			25	
	26	Subtract line 25 from line 24. Write your answer here and on Form 1040, line 34a. (If line 25 is more than line 24, see the Instructions for line 26 on page 22.) ▶			26	

For Paperwork Reduction Act Notice, see Form 1040 Instructions.

Schedules A&B (Form 1040) 1985

Schedule B—Interest and Dividend Income

08 OMB No. 1545-0074 Page 2

Name(s) as shown on Form 1040 (Do not enter name and social security number if shown on other side.)	Your social security number

Part I Interest Income

(See Instructions on pages 8 and 22.)

Also complete Part III.

If you received more than $400 in interest income, you must complete Part I and list ALL interest received. If you received interest as a nominee for another, or you received or paid accrued interest on securities transferred between interest payment dates, see page 22.

Interest income		Amount
1 Interest income from seller-financed mortgages. (See Instructions and show name of payer.) ▶	1	
2 Other interest income (list name of payer) ▶	2	
3 Add the amounts on lines 1 and 2. Write the total here and on Form 1040, line 8 . ▶	3	

Part II Dividend Income

(See Instructions on pages 8 and 22.)

Also complete Part III.

If you received more than $400 in gross dividends and other distributions on stock, or you are electing to exclude qualified reinvested dividends from a public utility, complete Part II. If you received dividends as a nominee for another, see page 23.

Dividend income				Amount
4 Dividend income (list name of payer—include on line 4 capital gain distributions, nontaxable distributions, etc.) ▶			4	
5 Add the amounts on line 4. Write the total here			5	
6 Capital gain distributions. Enter here and on line 15, Schedule D.*	6			▨
7 Nontaxable distributions. (See Schedule D Instructions for adjustment to basis.)	7			▨
8 Exclusion of qualified reinvested dividends from a public utility. (See page 23 of Instructions.)	8			▨
9 Add the amounts on lines 6, 7, and 8. Write the total here			9	
10 Subtract line 9 from line 5. Write the result here and on Form 1040, line 9a . . . ▶			10	

**If you received capital gain distributions for the year and you do not need Schedule D to report any other gains or losses, do not file that schedule. Instead, enter 40% of your capital gain distributions on Form 1040, line 14.*

Part III Foreign Accounts and Foreign Trusts

(See Instructions on page 23.)

If you received more than $400 of interest or dividends, OR if you had a foreign account or were a grantor of, or a transferor to, a foreign trust, you must answer both questions in Part III.	Yes	No
11 At any time during the tax year, did you have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? (See page 23 of the Instructions for exceptions and filing requirements for Form TD F 90-22.1.)		
If "Yes," write the name of the foreign country ▶	▨	▨
12 Were you the grantor of, or transferor to, a foreign trust which existed during the current tax year, whether or not you have any beneficial interest in it? If "Yes," you may have to file Forms 3520, 3520-A, or 926		

For Paperwork Reduction Act Notice, see Form 1040 Instructions.

Schedule B (Form 1040) 1985

SCHEDULE C
(Form 1040)

Department of the Treasury
Internal Revenue Service (X)

Profit or (Loss) From Business or Profession

(Sole Proprietorship)

Partnerships, Joint Ventures, etc., Must File Form 1065.

▶ Attach to Form 1040 or Form 1041. ▶ See Instructions for Schedule C (Form 1040).

OMB No. 1545-0074

1985

09

Name of proprietor

Social security number

A Principal business or profession, including product or service (see Instructions)

B Principal business code from page 2

C Business name and address ▶

D Employer ID number

E Method(s) used to value closing inventory:
(1) ☐ Cost (2) ☐ Lower of cost or market (3) ☐ Other (attach explanation)

F Accounting method: (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (specify) ▶

	Yes	No
G Was there any change in determining quantities, costs, or valuations between opening and closing inventory? If "Yes," attach explanation.		
H Did you deduct expenses for an office in your home?		

Part I Income

1 a Gross receipts or sales	1a	
b Less: Returns and allowances	1b	
c Subtract line 1b from line 1a and enter the balance here	1c	
2 Cost of goods sold and/or operations (from Part III, line 8)	2	
3 Subtract line 2 from line 1c and enter the **gross profit** here	3	
4 a Windfall Profit Tax Credit or Refund received in 1985 (see Instructions)	4a	
b Other income	4b	
5 Add lines 3, 4a, and 4b. This is the **gross income** ▶	5	

Part II Deductions

6 Advertising		22 Pension and profit-sharing plans	
7 Bad debts from sales or services (Cash method taxpayers, see Instructions)		23 Rent on business property	
8 Bank service charges		24 Repairs	
9 Car and truck expenses		25 Supplies (not included in Part III below)	
10 Commissions		26 Taxes (Do not include Windfall Profit Tax here. See line 30.)	
11 Depletion		27 Travel and entertainment	
12 Depreciation and section 179 deduction from Form 4562 (not included in Part III below)		28 Utilities and telephone	
		29 a Wages	
		b Jobs credit	
13 Dues and publications		c Subtract line 29b from 29a	
14 Employee benefit programs		30 Windfall Profit Tax withheld in 1985	
15 Freight (not included in Part III below)		31 Other expenses (specify):	
16 Insurance		a	
17 Laundry and cleaning		b	
18 Legal and professional services		c	
19 Mortgage interest paid to financial institutions (see Instructions)		d	
		e	
20 Office expense		f	
21 Other interest		g	

32 Add amounts in columns for lines 6 through 31g. These are the **total deductions** ▶	32	
33 **Net profit or (loss).** Subtract line 32 from line 5 and enter the result. If a profit, enter on Form 1040, line 12, and on Schedule SE, Part I, line 2 (or Form 1041, line 5). If a loss, you **MUST** go on to line 34	33	

34 If you have a loss, you **MUST** answer this question: "Do you have amounts for which you are not at risk in this business (see Instructions)?" ☐ Yes ☐ No
If "Yes," you **MUST** attach **Form 6198.** If "No," enter the loss on Form 1040, line 12, and on Schedule SE, Part I, line 2 (or Form 1041, line 5).

Part III Cost of Goods Sold and/or Operations (See Schedule C Instructions for Part III)

1 Inventory at beginning of year (if different from last year's closing inventory, attach explanation)	1	
2 Purchases less cost of items withdrawn for personal use	2	
3 Cost of labor (do not include salary paid to yourself)	3	
4 Materials and supplies	4	
5 Other costs	5	
6 Add lines 1 through 5	6	
7 Less: Inventory at end of year	7	
8 **Cost of goods sold and/or operations.** Subtract line 7 from line 6. Enter here and in Part I, line 2, above.	8	

For Paperwork Reduction Act Notice, see Form 1040 Instructions.

Schedule C (Form 1040) 1985

Codes for Principal Business or Professional Activity

Review the major business categories listed in **Step 1** and find the one which best describes your type of business or professional activity. The appropriate category will direct you to specific activity codes in **Step 2**. Select the activity code that identifies the business or profession that is the principal source of your sales or receipts. Enter this 4 digit code on line B on page 1 of Schedule C. (**Note**: *If your principal source of income is from farming activities, you should file Schedule F (Form 1040), Farm Income and Expenses.)*

Step 1

Major Business Categories	**See Specific Activity in Step 2**
Production (construction, manufacturing, mining), including custom or contract production services	A
Agricultural services (excluding farming), forestry, and fishing	B
Wholesale trade—selling goods you **do not produce** to businesses and institutions, including sales to professional practices and for farm production	C
Retail trade—selling goods you **do not produce** to individuals and households	D
Serving food or drink	D
Real estate, insurance, finance, and related services	E
Transportation, communications, public utilities, and related services	F
Providing personal, professional, and business services not included in the above categories	G

Step 2

A Production (Including Custom or Contract Production Services)

Construction and building trades

Code	
0018	Operative builders (building for own account)

General contractors

Code	
0034	Residential building
0059	Nonresidential building
0075	Highway and street construction
3889	Other heavy construction (pipe laying, bridge construction, etc.)

Building trade contractors, including repairs

Code	
0232	Plumbing, heating, air conditioning
0257	Painting, paper hanging, decorating
0273	Electrical work
0299	Masonry, plastering, stone, tile
0414	Carpentering and flooring
0430	Roofing and sheet metal work
0455	Concrete work
0471	Water well drilling
0885	Other building trade contractors (excavation, demolition, etc.)

Manufacturing, including printing and publishing

Code	
0612	Bakeries selling at retail
0638	Other food products and beverages
0653	Textile mill products
0679	Apparel and other textile products
0695	Leather, footware, handbags, etc.
0810	Furniture and fixtures
0836	Lumber and other wood products
0851	Printing and publishing
0877	Paper and allied products
0893	Chemicals and allied products
1016	Rubber and plastics products
1032	Stone, clay, and glass products
1057	Primary metal industries
1073	Fabricated metal products
1099	Machinery and machine shops
1115	Electric and electronic equipment
1313	Transportation equipment
1339	Instruments and related products
1883	Other manufacturing industries

Mining and mineral extraction

Code	
1511	Metal mining
1537	Coal mining
1552	Oil and gas
1719	Quarrying and nonmetallic mining

B Agricultural Services, Forestry, and Fishing

Code	
1917	Soil preparation services
1933	Crop services
1958	Veterinary services, including pets
1974	Livestock breeding
1990	Other animal services
2113	Farm labor and management services
2212	Horticulture and landscaping
2238	Forestry, except logging
0836	Logging
2279	Fishing, hunting, and trapping

C Wholesale Trade—Selling Goods to Other Businesses, Government, or Institutions, etc.

Durable goods, including machinery, equipment, wood, metals, etc.

Code	
2618	Selling for your own account
2634	Agent or broker for other firms—more than 50% of gross sales on commission

Nondurable goods, including food, fiber, chemicals, etc.

Code	
2659	Selling for your own account
2675	Agent or broker for other firms—more than 50% of gross sales on commission

D Retail Trade—Selling Goods to Individuals and Households

Code	
3012	Selling door-to-door, by telephone or party plan, or from mobile unit
3038	Catalog or mail order
3053	Vending machine selling

Selling From Store, Showroom, or Other Fixed Location

Food, beverages, and drugs

Code	
3079	Eating places (meals or snacks)
3095	Drinking places (alcoholic beverages)
3210	Grocery stores (general line)
0612	Bakeries selling at retail
3236	Other food stores (meat, produce, candy, etc.)
3251	Liquor stores
3277	Drug stores

Automotive and service stations

Code	
3319	New car dealers (franchised)
3335	Used car dealers
3517	Other automotive dealers (motorcycles, recreational vehicles, etc.)
3533	Tires, accessories, and parts
3558	Gasoline service stations

General merchandise, apparel, and furniture

Code	
3715	Variety stores
3731	Other general merchandise stores
3756	Shoe stores
3772	Mens' and boys' clothing stores
3913	Womens' ready-to-wear stores
3939	Family clothing stores
3954	Other apparel and accessory stores
3970	Furniture stores
3996	TV, audio, and electronics
4119	Household appliance stores
4317	Other home furnishing stores (china, floor coverings, drapes, etc.)
4333	Music and record stores

Building, hardware, and garden supply

Code	
4416	Building materials dealers
4432	Paint, glass, and wallpaper stores
4457	Hardware stores
4473	Nurseries and garden supply stores

Other retail stores

Code	
4614	Used merchandise and antique stores
4630	Gift, novelty, and souvenir shops
4655	Florists
4671	Jewelry stores
4697	Sporting goods and bicycle shops
4812	Boat dealers
4838	Hobby, toy, and game shops
4853	Camera and photo supply stores
4879	Optical goods stores
4895	Luggage and leather goods stores
5017	Book stores, excluding newsstands
5033	Stationery stores
5058	Fabric and needlework stores
5074	Mobile home dealers
5090	Fuel dealers (except gasoline)
5884	Other retail stores

E Real Estate, Insurance, Finance, and Related Services

Code	
5512	Real estate agents and managers
5538	Operators and lessors of buildings (except developers)
5553	Operators and lessors of other real property (except developers)
5710	Subdividers and developers, except cemeteries
5736	Insurance agents and services
5751	Security and commodity brokers, dealers and investment services
5777	Other real estate, insurance, and financial activities

F Transportation, Communications, Public Utilities, and Related Services

Code	
6114	Taxicabs
6312	Bus and limousine transportation
6338	Trucking (except trash collection)
6510	Trash collection without own dump
6536	Public warehousing
6551	Water transportation
6619	Air transportation
6635	Travel agents and tour operators
6650	Other transportation and related services
6676	Communication services
6692	Utilities, including dumps, snowplowing, road cleaning, etc.

G Services (Providing Personal, Professional, and Business Services)

Hotels and other lodging places

Code	
7096	Hotels, motels, and tourist homes
7211	Rooming and boarding houses
7237	Camps and camping parks

Laundry and cleaning services

Code	
7419	Coin-operated laundries and dry cleaning
7435	Other laundry, dry cleaning, and garment services
7450	Carpet and upholstery cleaning
7476	Janitorial and related services (building, house, and window cleaning)

Business and/or personal services

Code	
7617	Legal services (or lawyer)
7633	Income tax preparation
7658	Accounting and bookkeeping
7674	Engineering, surveying, and architectural
7690	Management, consulting, and public relations
7716	Advertising, except direct mail
7732	Employment agencies and personnel supply
7757	Computer and data processing, including repair and leasing
7773	Equipment rental and leasing (except computer or automotive)
7914	Investigative and protective services
7880	Other business services

Personal services

Code	
8110	Beauty shops (or beautician)
8318	Barber shop (or barber)
8334	Photographic portrait studios
8516	Shoe repair and shine services
8532	Funeral services and crematories
8557	Physical fitness facilities
8714	Child day care
8730	Teaching or tutoring
8755	Counseling (except health practitioners)
8771	Ministers and chaplains
6882	Other personal services

Automotive services

Code	
8813	Automotive rental or leasing, without driver
8839	Parking, except valet
8854	General automotive repairs
8870	Specialized automotive repairs (brake, body repairs, paint, etc.)
8896	Other automotive services (wash, towing, etc.)

Miscellaneous repair, except computers

Code	
9019	TV and audio equipment repair
9035	Other electrical equipment repair
9050	Reupholstery and furniture repair
2881	Other equipment repair

Medical and health services

Code	
9217	Physicians and surgeons (MD's)
9233	Dentists
9258	Osteopathic physicians and surgeons
9274	Chiropractors
9290	Optometrists
9415	Registered and practical nurses
9431	Other licensed health practitioners
9456	Dental laboratories
9472	Nursing and personal care facilities
9886	Clinics and other health services

Amusement and recreational services

Code	
9613	Video tape rental stores
9639	Motion picture theaters
9654	Other motion picture and TV activities
9670	Bowling alleys and pool parlors
9696	Professional sports and racing, including promoters and managers
9811	Theatrical performers, musicians, agents, producers, and related services
9837	Other amusement and recreation services
8888	Unable to classify—Explain

SCHEDULE D
(Form 1040)
Department of the Treasury
Internal Revenue Service (X)

Capital Gains and Losses and Reconciliation of Forms 1099–B

► **Attach to Form 1040.** ► **See Instructions for Schedule D (Form 1040).**

OMB No. 1545-0074
1985
12

Name(s) as shown on Form 1040	Your social security number

Part I Summary of Forms 1099–B for Sales of Stocks, Bonds, Etc.

1a Report here and on line 37, Part VII, page 2, total sales of stocks, bonds, etc., reported for 1985 by your broker to you on Form(s) 1099–B or an equivalent substitute statement(s), such as a broker's confirmation statement	**1a**	
Note: *Also complete Part VII if you received one or more Form(s) 1099–B or equivalent statement(s) for 1985, for bartering income.*		▨

Part II Short-term Capital Gains and Losses-Assets Held Six Months or Less (one year or less if acquired before 6/23/84)

(a) Description of property (Example, 100 shares 7% preferred of "Z" Co.)	**(b)** Date acquired (Mo., day, yr.)	**(c)** Date sold (Mo., day, yr.)	**(d)** Gross sales price	**(e)** Cost or other basis (see instructions)	**(f)** LOSS If column (e) is more than (d) subtract (d) from (e)	**(g)** GAIN If column (d) is more than (e) subtract (e) from (d)
1b						

2 Short-term gain from sale or exchange of a principal residence from Form 2119, lines 6 or 12	**2**	▨		
3 Short-term gain from installment sales from Form 6252, lines 22 or 30	**3**	▨		
4 Net short-term gain or (loss) from partnerships, S corporations, and fiduciaries .	**4**			
5 Add lines 1b through 4 in columns (f) and (g)	**5**	( )		
6 Combine columns (f) and (g) of line 5 and enter the net gain or (loss)			**6**	
7 Short-term capital loss carryover from years beginning after 1969			**7**	( )
8 Net short-term gain or (loss), combine lines 6 and 7			**8**	

Part III Long-term Capital Gains and Losses-Assets Held More Than Six Months (more than one year if acquired before 6/23/84)

9						

10 Long-term gain from sale or exchange of a principal residence from Form 2119, lines 6, 8, or 12	**10**	▨		
11 Long-term gain from installment sales from Form 6252, lines 22 or 30	**11**	▨		
12 Net long-term gain or (loss) from partnerships, S corporations, and fiduciaries .	**12**			
13 Add lines 9 through 12 in columns (f) and (g)	**13**	( )		
14 Combine columns (f) and (g) of line 13 and enter the net gain or (loss)			**14**	
15 Capital gain distributions			**15**	
16 Enter gain from Form 4797, lines 6 or 8b			**16**	
17 Combine lines 14 through 16			**17**	
18 Long-term capital loss carryover from years beginning after 1969			**18**	( )
19 Net long-term gain or (loss), combine lines 17 and 18			**19**	

Note: *Complete the back of this form. However, if you have capital loss carryovers from years beginning before 1970, do not complete Parts IV or V. See Form 4798 instead.*

For Paperwork Reduction Act Notice, see Form 1040 Instructions.

Name(s) as shown on Form 1040 (Do not enter name and social security number if shown on other side) | **Your social security number**

Part IV Summary of Parts II and III

20 Combine lines 8 and 19, and enter the net gain or (loss) here 20

Note: *If line 20 is a loss, skip lines 21 through 23 and complete lines 24 and 25. If line 20 is a gain, complete lines 21 through 23 and skip lines 24 and 25.*

21 If line 20 shows a gain, enter the smaller of line 19 or line 20. Enter zero if there is a loss or no entry on line 19 21

22 Enter 60% of line 21 22

If line 22 is more than zero, you may be liable for the alternative minimum tax. See Form 6251.

23 Subtract line 22 from line 20. Enter here and on Form 1040, line 13 23

24 If line 20 shows a loss, enter one of the following amounts:

- **a** If line 8 is zero or a net gain, enter 50% of line 20;
- **b** If line 19 is zero or a net gain, enter line 20; or
- **c** If line 8 and line 19 are net losses, enter amount on line 8 added to 50% of the amount on line 19 24

25 Enter here and as a loss on Form 1040, line 13, the smallest of:

- **a** The amount on line 24;
- **b** $3,000 ($1,500 if married and filing a separate return); or
- **c** Taxable income, as adjusted 25

Part V Computation of Post-1969 Capital Loss Carryovers from 1985 to 1986

(Complete this part if the loss on line 24 is more than the loss on line 25)

26 Enter loss shown on line 8; if none, enter zero and skip lines 27 through 30, then go to line 31 26

27 Enter gain shown on line 19. If that line is blank or shows a loss, enter zero 27

28 Subtract line 27 from line 26 28

29 Enter smaller of line 25 or line 28 29

30 Subtract line 29 from line 28. This is your short-term capital loss carryover from 1985 to 1986 . . . 30

31 Subtract line 29 from line 25. (Note: If you skipped lines 27 through 30, enter amount from line 25.) 31

32 Enter loss from line 19; if none, enter zero and skip lines 33 through 36 32

33 Enter gain shown on line 8. If that line is blank or shows a loss, enter zero 33

34 Subtract line 33 from line 32 34

35 Multiply amount on line 31 by 2 35

36 Subtract line 35 from line 34. This is your long-term capital loss carryover from 1985 to 1986 36

Part VI Complete This Part Only If You Elect Out of the Installment Method and Report a Note or Other Obligation at Less Than Full Face Value

☐ Check here if you elect out of the installment method.

Enter the face amount of the note or other obligation. ▶ ....

Enter the percentage of valuation of the note or other obligation. ▶

Part VII Reconciliation of Forms 1099–B With Tax Return

(Complete this part if you received one or more Form(s) 1099–B or an equivalent broker's substitute statement(s) reporting sales of stock, bonds, etc., or bartering income.)

SECTION A.—Reconciliation of Sales of Stocks, Bonds, etc.

37 Total sales of stock, bonds, etc., reported for 1985 by your broker to you, on Form(s) 1099–B or an equivalent substitute statement(s), such as a broker's confirmation statement. Also include on line 1a, page 1, Part I 37

38 Proceeds from sale or exchange of capital assets reported on Schedule D, but not included in line 37 38

39 Add lines 37 and 38 39

40 Part of line 37 not reported on Schedule D this year (attach explanation) 40

41 Subtract line 40 from line 39 41

Note: *The amount on line 41 should be the same as the total of all amounts on page 1, lines 1b and 9 of column (d).*

SECTION B.—Reconciliation of Bartering Income

Indicate below, the amount of bartering income reported on each form or schedule.

		Amount of bartering from Form 1099–B or equivalent statement
42 Form 1040, line 22	42	
43 Schedule C (Form 1040)	43	
44 Schedule D (Form 1040)	44	
45 Schedule E (Form 1040)	45	
46 Schedule F (Form 1040)	46	
47 Other (identify) (if not taxable, indicate reason—attach additional sheets if necessary) ▶	47	
48 Total (add lines 42 through 47)	48	

Note: *The amount on line 48 should be the same as the total bartering on all Forms 1099–B or equivalent statements received.*

SCHEDULE E
(Form 1040)
Department of the Treasury
Internal Revenue Service (X)

Supplemental Income Schedule

(From rents and royalties, partnerships, estates, and trusts, etc.)

▶ Attach to Form 1040. ▶ See Instructions for Schedule E (Form 1040).

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Name(s) as shown on Form 1040

Your social security number

Part I Rental and Royalty Income or Loss

1 In the space provided below, show the kind and location of each rental property.	**2** For each property listed, did you or a member of your family use for personal purposes any of the properties for more than the greater of 14 days or 10% of the total days rented at fair rental value during the tax year?	Yes	No
Property A ▶			
Property B ▶			
Property C ▶			

		Properties A	Properties B	Properties C		Totals (Add columns A, B, and C)
Rental and Royalty Income						
3 a Rents received					3	
b Royalties received						
Rental and Royalty Expenses						
4 Advertising	4					
5 Auto and travel	5					
6 Cleaning and maintenance	6					
7 Commissions	7					
8 Insurance	8					
9 Legal and other professional fees	9					
10 Mortgage interest paid to financial institutions (see Instructions)	10				10	
11 Other interest	11					
12 Repairs	12					
13 Supplies	13					
14 Taxes (Do **not** include Windfall Profit Tax here. See Part III, line 34.)	14					
15 Utilities	15					
16 Wages and salaries	16					
17 Other (list) ▶						
18 Total expenses other than depreciation and depletion. Add lines 4 through 17	18				18	
19 Depreciation expense (see Part V Instructions), or depletion	19				19	
20 Total. Add lines 18 and 19	20					
21 Income or (loss) from rental or royalty properties. Subtract line 20 from line 3a (rents) or 3b (royalties)	21					

22 Add properties with profits on line 21, and write the total profits here	22	
23 Add properties with losses on line 21, and write the total (losses) here	23	( )
24 Combine amounts on lines 22 and 23, and write the net profit or (loss) here	24	
25 Net farm rental profit or (loss) from Form 4835, line 35	25	
26 Total rental or royalty income or (loss). Combine amounts on lines 24 and 25, and write the total here. If Parts II and III on page 2 do not apply to you, write the amount from line 26 on Form 1040, line 18. Otherwise, include the amount in line 36 on page 2 of Schedule E	26	

For Paperwork Reduction Act Notice, see Form 1040 Instructions.

Name(s) as shown on Form 1040 (Do not enter name and social security number if shown on other side)	Your social security number

Part II Income or Losses from Partnerships, S Corporations, Estates, or Trusts

If you report a loss below, and have amounts invested in that activity for which you are not at risk, you may have to file Form 6198. See Instructions.

Partnerships and S Corporations

(a) Name	(b) Enter appropriate code [1]	(c) Check if foreign partnership	(d) Employer identification number	(e) Net loss (see instructions for at-risk limitations)	(f) Net income

[1] Codes: **P** for partnership; **S** for S corporation

27 Add amounts in columns (e) and (f) and write the total(s) here	**27**	( )	
28 Combine amounts in columns (e) and (f), line 27, and write the net income or (loss) here	**28**		
29 Deduction for section 179 property (from Form 1065, Schedule K-1, and Form 1120S, Schedule K-1). (See Instructions for limitations.)	**29**	( )	
30 Total partnership and S corporation income or (loss). Combine amounts on lines 28 and 29. Write the total here and include in line 36 below	**30**		

Estates and Trusts

(a) Name	(b)	(c)	(d) Employer identification number	(e) Net loss (see instructions for at-risk limitations)	(f) Net income
	▨	▨			
	▨	▨			
	▨	▨			
	▨	▨			

31 Add amounts in columns (e) and (f) and write the total(s) here	**31**	( )	
32 Total estate and trust income or (loss). Combine amounts in columns (e) and (f), line 31. Write the total here and include in line 36 below	**32**		

Part III Windfall Profit Tax Summary

33 Windfall profit tax credit or refund received in 1985 (see Instructions)	**33**	
34 Windfall profit tax withheld in 1985 (see Instructions)	**34**	( )
35 Combine amounts on lines 33 and 34. Write the total here and include in line 36 below	**35**	

Part IV Summary

36 TOTAL income or (loss). Combine lines 26, 30, 32, and 35. Write total here and on Form 1040, line 18 ▶			**36**	
37 Farmers and fishermen: Write your share of GROSS FARMING AND FISHING INCOME applicable to Parts I and II (see Instructions)	**37**			▨

Part V Optional Depreciation Worksheet.—You may use this worksheet to figure depreciation only on property placed in service before 1981. If you placed any property in service after 1980, you must use Form 4562 for all property.

	(a) Description of property	(b) Date acquired	(c) Cost or other basis	(d) Depreciation allowed or allowable in prior years	(e) Depreciation method	(f) Life or rate	(g) Depreciation for this year
A							
	Total (Property A)						
B							
	Total (Property B)						
C							
	Total (Property C)						

SCHEDULE F
(Form 1040)

Department of the Treasury
Internal Revenue Service (X)

Farm Income and Expenses

► **Attach to Form 1040, Form 1041, or Form 1065.**

► **See Instructions for Schedule F (Form 1040).**

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Name of proprietor(s)

Social security number (SSN)

A Agricultural Activity Code. (Write in the code that best describes your principal income-producing activity. The codes are listed on page 2 of this schedule.) ►

B Principal Product. (Describe in one or two words your principal crop or output for the current tax year.) ►

If you disposed of commodities received under the payments-in-kind (PIK) program, check the box(es) that apply:

☐ Feed for livestock ☐ Sold and reported in income

Employer ID number (NOT SSN)

Part I Farm Income—Cash Method—Complete Parts I and II

(Accrual method taxpayers complete Parts II and III, and line 12 of Part I.)

Do not include sales of livestock held for draft, breeding, sport, or dairy purposes; report these sales on Form 4797.

1	Sales of livestock and other items you bought for resale		1	
2	Cost or other basis of livestock and other items you bought for resale		2	
3	Subtract line 2 from line 1		3	
4	Sales of livestock, produce, grains, and other products you raised		4	
5	**a** Total distributions received from cooperatives (from Form 1099-PATR)	5a		
	b Less: Nonincome items	5b		
6	Net distributions. Subtract line 5b from line 5a		6	
7	Agricultural program payments:			
	a Cash		7a	
	b Materials and services		7b	
8	Commodity credit loans under election (or forfeited).		8	
9	Crop insurance proceeds		9	
10	Machine work		10	
11	Other income, including Federal and state gasoline tax credit or refund (see instructions)		11	
12	**Gross income**. Add amounts on lines 3, 4, 6, and 7a through 11. If accrual method taxpayer, enter the amount from Part III, line 52 ►		12	

Part II Farm Deductions—Cash and Accrual Method

Do not include personal or living expenses (such as taxes, insurance, repairs, etc. on your home), which do not produce farm income. Reduce the amount of your farm deductions by any reimbursements before entering the deduction below.

13	Breeding fees		26	Mortgage interest paid to financial institutions (see instructions)	
14	Chemicals		27	Other interest	
15	Conservation expenses		28	Pension and profit-sharing plans	
16	Depreciation, and section 179 expense deduction (from Form 4562)		29	Rent of farm, pasture	
17	Employee benefit programs other than on line 28		30	Repairs, maintenance	
			31	Seeds, plants purchased	
18	Feed purchased		32	Storage, warehousing	
19	Fertilizers and lime		33	Supplies purchased	
20	Freight, trucking		34	Taxes	
21	Gasoline, fuel, oil		35	Utilities	
22	Insurance		36	Veterinary fees, medicine	
23	**a** Labor hired		37	Other expenses (specify):	
	b Jobs credit			**a**	
	c Balance (subtract line 23b from line 23a)			**b**	
				c	
24	Land clearing (see instructions)			**d**	
25	Machine hire			**e**	

38	**Total deductions from Part II**. Add amounts in columns for lines 13 through 37e ►	38	
39	**Net farm profit or (loss)** (subtract line 38 from line 12). If a profit, enter on Form 1040, line 19, and on Schedule SE, Part I, line 1. If a loss, you **MUST** go on to line 40. (Fiduciaries and partnerships, see the instructions.)	39	

40 If you have a loss, you **MUST** answer this question:
"Do you have amounts for which you are not at risk in this farm (see instructions)?" ☐ Yes ☐ No
If "Yes," you **MUST** attach **Form 6198**. If "No," enter the loss on Form 1040, line 19, and on Schedule SE, Part I, line 1.

For Paperwork Reduction Act Notice, see Form 1040 Instructions.

Part III **Farm Income—Accrual Method**

Do not include sales of livestock held for draft, breeding, sport, or dairy purposes; report these sales on Form 4797 and do not include them on line 47 below.

41	Sales of livestock, produce, grains, and other products during year			**41**	
42	Agricultural program payments:				
	a Cash			**42a**	
	b Materials and services			**42b**	
43	Commodity credit loans under election (or forfeited)			**43**	
44	Machine work			**44**	
45	Other income, including Federal and state gasoline tax credit or refund (see instructions)			**45**	
46	**Total.** Add amounts on lines 41 through 45			**46**	
47	Inventory of livestock, produce, grains, and other products at beginning of year	**47**			
48	Cost of livestock, produce, grains, and other products purchased during year	**48**			
49	Add lines 47 and 48	**49**			
50	Inventory of livestock, produce, grains, and other products at end of year	**50**			
51	Cost of livestock, produce, grains, and other products sold. Subtract line 50 from line 49 *			**51**	
52	**Gross income.** Subtract line 51 from line 46. Enter here and on Part I, line 12 ▶			**52**	

* If you use the unit-livestock-price method or the farm-price method of valuing inventory and the amount on line 50 is larger than the amount on line 49, subtract line 49 from line 50. Enter the result on line 51 and add lines 46 and 51. Enter the total on line 52.

Principal Agricultural Activity Codes

Select one of the following codes and write the 4 digit number on line A on page 1 of this schedule. (**Note:** *If your principal source of income is from providing agricultural services such as soil preparation, veterinary, farm labor, horticultural, or management for a fee or on a contract basis, you should file Schedule C (Form 1040), Profit or (Loss) From Business or Profession.*)

0120	**Field crop,** including grains and nongrains such as cotton, peanuts, feed corn, wheat, tobacco, Irish potatoes, etc.
0160	**Vegetables and melons,** garden-type vegetables and melons, such as sweet corn, tomatoes, squash, etc.
0170	**Fruit and tree nuts,** including grapes, berries, olives, etc.
0180	**Horticultural specialty,** including the growing of ornamental floriculture and nursery products such as plants, shrubbery, bulbs, flowers, sod, etc.
0211	**Beefcattle feedlots**
0212	**Beefcattle,** except feedlots
0215	**Hogs, sheep, and goats**
0240	**Dairy**
0250	**Poultry and eggs,** including chickens, ducks, pigeons, quail, etc.
0260	**General livestock,** not specializing in any one livestock category
0270	**Animal specialty,** including fur bearing animals, pets, fish, horses, etc.
0300	**Agricultural production,** not specified

Schedule G
(Form 1040)
Department of the Treasury
Internal Revenue Service (X)

Income Averaging

▶ **See instructions on back.** ▶ **Attach to Form 1040.**

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Name(s) as shown on Form 1040

Your social security number

Step 1 Add your income from 1982—1984

1982	1	Fill in the amount from your 1982 Form 1040 (line 37), Form 1040A (line 16), or Form 1040EZ (line 7). If less than zero, enter zero	1	
1983	2	Fill in the amount from your 1983 Form 1040 (line 37), Form 1040A (line 19), or Form 1040EZ (line 7). If less than zero, enter zero	2	
1984	3	Fill in the amount from your 1984 Form 1040 (line 37), Form 1040A (line 19), or Form 1040EZ (line 7). If less than zero, enter zero	3	
Total	4	Fill in all income less deductions earned outside of the U.S. or within U.S. possessions and excluded for 1982 through 1984 (include housing exclusion)	4	
	5	Add lines 1 through 4	5	

Step 2 Figure your averageable income

6	Divide the amount on line 5 by three (3)	6	
7	Multiply the amount on line 6 by 140% (1.4)	7	
8	Fill in your taxable income for 1985 from Form 1040, line 37	8	
9	If you received a premature or excessive distribution subject to a penalty under section 72, see instructions	9	
10	Subtract line 9 from line 8	10	
11	If you live in a community property state and are filing a separate return, see instructions	11	
12	Subtract line 11 from line 10. If less than zero, enter zero	12	
13	Write in the amount from line 7 above	13	
14	Subtract line 13 from line 12. This is your averageable income. If this line is $3,000 or less, do not complete the rest of this form	14	

Step 3 Figure your tax

15	Multiply the amount on line 14 by 25% (.25)			15	
16	Write in the amount from line 7 above			16	
17	Add lines 15 and 16			17	
18	Write in the amount from line 11 above			18	
19	Add lines 17 and 18			19	
20	Tax on amount on line 19 (from Tax Rate Schedule X, Y, or Z)			20	
21	Tax on amount on line 17 (from Tax Rate Schedule X, Y, or Z)	21			
22	Tax on amount on line 16 (from Tax Rate Schedule X, Y, or Z)	22			
23	Subtract line 22 from line 21	23			
24	Multiply the amount on line 23 by 3 *If you have no entry on line 9, skip lines 25 through 27 and go to line 28.*			24	
25	Tax on amount on line 8 (from Tax Rate Schedule X, Y, or Z)	25			
26	Tax on amount on line 10 (from Tax Rate Schedule X, Y, or Z)	26			
27	Subtract line 26 from line 25			27	
28	Add lines 20, 24, and 27. Write the result here. If it is less than the tax figured from the tax rate schedules or tax table, also write the result on Form 1040, line 38, and check the Schedule G box			28	

For Paperwork Reduction Act Notice, see Form 1040 instructions.

Instructions

If your income this year is greater than the average of your income for the past 3 base period years (1982–1984), you may be able to pay less tax by income averaging. To see if you qualify, complete lines 1–14 of this schedule. If line 14 is more than $3,000, fill in the rest of this schedule to see if you will save by income averaging. Income averaging will not always result in a lower tax.

You must attach this schedule to your Form 1040 to choose the benefits of income averaging. Generally, you may make or change this choice anytime within 3 years from the date you filed your return.

For more information and a filled-in sample Schedule G, please get **Publication 506,** Income Averaging.

Who Can Income Average?

To be eligible to file Schedule G with Form 1040, you (and your spouse, if you are filing a joint return) must meet the following requirements:

(1) Citizenship or residence.—You must have been a U.S. citizen or resident for all of 1985. You are not eligible if you were a nonresident alien at any time during the 4 tax years ending with 1985.

(2) Support.—You must have furnished at least 50% of your own support for each of the years 1982 through 1984. In a year in which you were married, you and your spouse must have provided at least 50% of the support of both of you. For the definition of support, see Form 1040 Instructions.

Exceptions: Disregard the support requirement if any one of the three following situations applies to you:

(1) You were 25 or older before the end of 1985 and were not a full-time student during 4 or more of your tax years between age 21 and the end of 1985 ; or

(2) More than 50% of your 1985 taxable income (line 8) is from work you performed in substantial part during 2 or more of the 3 tax years before 1985; or

(3) You file a joint return for 1985 and your income for 1985 is not more than 25% of the total combined adjusted gross income (line 33, Form 1040).

For the definition of full-time student, see Form 1040 Instructions.

Caution: In the same year you file Schedule G you may not claim the benefits of Internal Revenue Code sections 911 or 931 through 935, dealing with certain income from U.S. possessions and foreign sources.

Figure Your Income for 1982–1984

(1) Use your separate income and deductions for all years if you were unmarried in 1982 through 1985.

(2) Use the combined income and deductions of you and your spouse for a base period year:

- if in 1985 you are married and file a joint return, or are a qualifying widow(er), and
- you were not married to any other spouse in that base period year.

(3) If (1) and (2) do not apply, your separate base period income is the largest of the following amounts:

(a) Your separate income and deductions for the base period year as explained below;

(b) Half of the base period income from adding your separate income and deductions to the separate income and deductions of your spouse for that base period year; or

(c) Half of the base period income from adding your separate income and deductions to your 1985 spouse's separate income and deductions for that base period year.

Note: *If you were married to one spouse in a base period year and are married and file a joint return with a different spouse in 1985, your separate base period income is the larger of (3)(a) or (b) above. Combine that amount with your 1985 spouse's separate base period income for that base period year.*

Figuring Your Separate Income and Deductions

The amount of your separate income and deductions for a base period year is your gross income for that year minus your allowable deductions.

If you filed a joint return for a base period year, your separate deductions are:

(1) For deductions allowable in figuring your adjusted gross income, the sum of those deductions attributable to your gross income; and

(2) For deductions allowable in figuring taxable income (exemptions and itemized deductions), the amount from multiplying the deductions allowable on the joint return by a fraction whose numerator is your adjusted gross income and whose denominator is the combined adjusted gross income on the joint return. However, if 85% or more of the combined adjusted gross income of you and your spouse is attributable to one spouse, all deductions allowable in figuring taxable income are allowable to that spouse.

Community property laws.—In figuring your separate taxable income when community property laws apply, you must take into account:

- all of your earned income without regard to the community property laws, or
- your share of the community earned income under community property laws, whichever is more.

If you must figure your separate taxable income for any of the base period years, attach a statement showing the computation and the names under which the returns were filed.

Line-by-Line Instructions

Lines 1–3.—If you did not file a return for any year from 1982 through 1984, enter the amounts that would otherwise be reportable on the appropriate lines. If the amount reported on your return for any of the years was changed by an amended return or by the Internal Revenue Service, enter the corrected amount.

Line 4.—If you excluded any income in any year from 1982 through 1984 because the income was earned from sources outside the United States or within U.S. possessions, fill in the total amount of income (less deductions) that you excluded during that period.

Line 9.—If you are or were a 5-percent owner of a business, and you received income in 1985 from a premature or excessive distribution from a Keogh (H.R. 10) plan or trust that was subject to a penalty under section 72(m)(5), fill in the amount of that income on this line. Or, if you were an employee in a qualified plan and made deductible voluntary contributions, and received a premature distribution of those contributions subject to a penalty under section 72(o), include that amount on line 9. If you received a premature distribution under an annuity contract subject to a penalty under section 72(q), that amount must also be included on line 9.

Line 11.—Complete this line if you are married, a resident of a community property state, and file a separate return for 1985. Enter the community earned income you reported minus that part of the income which is attributable to your services. Skip this line if the earned income attributable to your services is more than 50% of your combined community earned income.

Example:

	Attributable to the services of		
Community Earned Income	**John**	**Carol**	**Both**
	$40,000	$20,000	$60,000

- **John,** filing a separate return, skips this line since the amount of earned income attributable to the services of John ($40,000) is more than 50% of the combined community earned income ($30,000).
- **Carol,** filing a separate return, enters $10,000 on line 11. This is figured by taking 50% of the combined community earned income ($30,000) and subtracting the amount of community earned income attributable to Carol's services ($20,000).

Schedule R
(Form 1040)
Department of the Treasury
Internal Revenue Service (X)

Credit for the Elderly and the Permanently and Totally Disabled

▶ **For Paperwork Reduction Act Notice, see separate Instructions.**
▶ **Attach to Form 1040.** ▶ **See separate Instructions for Schedule R.**

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Name(s) as shown on Form 1040

Your social security number

Who Can Use Schedule R

You may be able to use Schedule R to reduce your tax if by the end of 1985:

- You were 65 or over, **OR**
- You were under 65, you retired on permanent and total disability, and you received taxable disability income.

Even if one of the situations described above applies to you, you must meet other tests to be able to take the credit on Schedule R. See the separate Schedule R instructions for details.

Note: *IRS can figure your Credit for the Elderly and the Permanently and Totally Disabled and figure your tax for you. See "IRS Will Figure Your Tax and Some of Your Credits" on page 13 of the Form 1040 instructions for more details.*

Part I **Check the box that applies to your filing status and age** (Check only one box)

If your filing status is:		**And by the end of 1985:**		**Check box:**
	1	You were 65 or over	1	☐
Single	2	You were under 65 and you retired on permanent and total disability	2	☐
Married filing a joint return	3	Both spouses were 65 or over	3	☐
	4	Both spouses were under 65, but only one spouse retired on permanent and total disability	4	☐
	5	Both spouses were under 65, and both retired on permanent and total disability	5	☐
	6	One spouse was 65 or over, and the other spouse was under 65 and retired on permanent and total disability	6	☐
	7	One spouse was 65 or over, and the other spouse was under 65 and **NOT** retired on permanent and total disability	7	☐
Married filing a separate return	8	You were 65 or over, and did not live with your spouse at any time in 1985	8	☐
	9	You were under 65, you retired on permanent and total disability and did not live with your spouse at any time in 1985	9	☐

Note: *If you checked the box on line 1, 3, 7, or 8, skip Part II and complete Part III. If you checked the box on line 2, 4, 5, 6, or 9, complete Parts II and III.*

Part II **Statement of permanent and total disability** (Complete **ONLY** if you checked the box on line 2, 4, 5, 6, or 9 above)

IF: 1 You filed a physician's statement for this disability for 1983 or an earlier year, or you filed a statement for 1984 and your physician checked Box B on the statement, **AND**

2 Due to your continued disabled condition you were unable to engage in any substantial gainful activity in 1985, check this box. ▶ ☐

If you checked this box, you do not have to file another statement for 1985. If you did not check this box, have your physician complete the following statement:

Physician's Statement

I certify that ______________________________
Name of disabled person

was permanently and totally disabled on January 1, 1976, or January 1, 1977, **OR** was permanently and totally disabled on the date he or she retired. Date retired if retired after December 31, 1976 ▶ ____________

Physician: Check Box A or B below and sign. Check **only** one box.

A. ☐ The disability has lasted, or can be expected to last continuously for at least a year ______________________________
Physician's signature Date

B. ☐ There is no reasonable probability that the disabled condition will ever improve ______________________________
Physician's signature Date

Physician's name

Physician's address

Instructions for statement

Taxpayer

Enter in the space provided the date you retired if you retired after December 31, 1976.

Physician

A person is permanently and totally disabled when—

- He or she cannot engage in any substantial gainful activity because of a physical or mental condition; and
- A physician determines that the disability:
  1. has lasted or can be expected to last continuously for at least a year; or
  2. can be expected to lead to death.

Part III Figure the Amount of Your Credit

10 Write: $5,000 if you checked the box on line 1, 2, 4, or 7 in Part I, **OR**
$7,500 if you checked the box on line 3, 5, or 6 in Part I, **OR**
$3,750 if you checked the box on line 8 or 9 in Part I. **10**

Caution: *If you checked the box on line 2, 4, 5, 6, or 9 in Part I, you* ***MUST*** *complete line 11 below. Otherwise, skip line 11 and write the amount from line 10 on line 12.*

11 Include on this line your taxable disability income (and also your spouse's if you checked the box on line 5 in Part I) that you reported on Form1040. However, if you checked the box on line 6 in Part I, enter on this line the taxable disability income of the spouse who was under age 65 **PLUS** $5,000. (For more details on what to include, see the Instructions.) **11**

12 If you completed line 11 above, compare the amounts on lines 10 and 11, and write the **smaller** of the two amounts on this line. Otherwise, write the amount from line 10 on this line **12**

13 Include on this line the following pensions, annuities, or disability income that you (and your spouse if you file a joint return) received in 1985:

- Nontaxable part of social security benefits.
- Nontaxable part of Tier 1 railroad retirement benefits.
- Nontaxable veterans' pensions.
- Any other pension, annuity, or disability benefit that is excluded from income under any other provision of law.

Even though these income items are not subject to income tax, they **must** be included on this line to figure your credit. If you did not receive any of the types of nontaxable income listed above, write -0- on line 13 . . . . . **13**

14 Write the amount from Form 1040, line 33. **14**

15 Write: $7,500 if you checked the box on line 1 or 2 in Part I, **OR**
$10,000 if you checked the box on line 3, 4, 5, 6, or 7 in Part I, **OR**
$5,000 if you checked the box on line 8 or 9 in Part I. **15**

16 Subtract line 15 from line 14. Write the result. If line 15 is more than line 14, write -0-. **16**

17 Divide the amount on line 16 by 2. Write the result **17**

18 Add lines 13 and 17. Write the total **18**

19 Subtract line 18 from line 12. Write the result. If the result is zero or less, stop here; you **cannot** take the credit. Otherwise, go on to line 21 below. **19**

20 Percentage used to figure the credit . . . . **20** × .15

21 Multiply the amount on line 19 by the percentage (.15) on line 20 and write the result. This is your **credit for the elderly and the permanently and totally disabled.** Also write this amount on Form 1040, line 42. . . . . **21**

1985 Department of the Treasury
Internal Revenue Service

Instructions for Schedule R (Form 1040)

Credit for the Elderly and the Permanently and Totally Disabled

Paperwork Reduction Act Notice

We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Purpose of Schedule

Some elderly people can take a special tax credit and pay less tax. The credit is based on your filing status and age, and, if you are married and file a joint return, on your spouse's age. Also, certain disabled people may be able to take this special credit to reduce their tax. If you can take the credit, use Schedule R (Form 1040) to figure it and attach Schedule R to Form 1040.

Who Can Take the Credit

You may be able to take the credit for 1985 if you were age 65 or over at the end of 1985.

If you were under age 65 at the end of 1985, you may also be able to take the credit. However, if you were under age 65, you must meet **ALL** of the following tests to be able to take the credit:

a. You retired on permanent and total disability on the date you retired; or if you retired before January 1, 1977, you were permanently and totally disabled on January 1, 1976, or January 1, 1977; and

b. You received taxable disability income for 1985; and

c. On January 1, 1985, you had not reached the age when your employer's retirement program would have required you to retire.

For the definition of what is permanent and total disability, see **What is permanent and total disability** on this page. Also see the instructions for Part II on page 2.

Generally, if you were married at the end of 1985, you must file a joint return to take the credit. However, see **Married persons** in the instructions for Part I on page 2.

Income limitations.—Generally, you cannot take the credit if you are:

- Single and the amount on Form 1040, line 33, is $17,500 or more, or you receive $5,000 or more of nontaxable social security or other nontaxable pensions.
- Married, filing a joint return, only one spouse is eligible for the credit, and the amount on Form 1040, line 33, is $20,000 or more, or you receive $5,000 or more of nontaxable social security or other nontaxable pensions.
- Married, filing a joint return, both spouses are eligible for the credit, and the amount on Form 1040, line 33, is $25,000 or more, or you receive $7,500 or more of nontaxable social security or other nontaxable pensions.
- Married, filing a separate return, did not live with your spouse all year, and the amount on Form 1040, line 33, is $12,500 or more, or you receive $3,750 or more of nontaxable social security or other nontaxable pensions.

What is permanent and total disability.—If you were under the age of 65 at the end of 1985, you must be permanently and totally disabled to be able to take the credit. A person is permanently and totally disabled when:

a. He or she cannot engage in any substantial gainful activity because of a physical or mental condition; and

b. A physician determines that the condition (1) has lasted or can be expected to last continuously for at least a year; or (2) can be expected to lead to death.

Examples 1 through 4 below show situations in which the taxpayers were considered to have engaged in substantial gainful activity. ***Note:*** *In each example, the taxpayer was under age 65 at the end of the year.*

Example (1): Bob worked at a hotel as a desk clerk. After retiring on disability, he got a desk clerk job at another hotel. Bob does all the duties of the job and is paid more than the minimum wage. Because he does the job on the same terms as the other desk clerks and is paid more than the minimum wage, he is considered engaged in a substantial gainful activity. He cannot take the credit.

Example (2): Sue retired on disability as a sales clerk. She now works as a full-time babysitter at a rate of pay equal to the minimum wage. Although she does different work, Sue babysits on ordinary terms for the minimum wage. She cannot take the credit.

Example (3): Mary, the president of XYZ Corporation, retired on disability because of her terminal illness. At her doctor's advice, she works part-time as a manager and is paid more than the minimum wage. Her employer sets her days and hours. Although Mary's illness is terminal and she works part time, the work is done at her employer's convenience; therefore, she is considered engaged in a substantial gainful activity. She cannot take the credit.

Example (4): Jane retired on disability and now works at an easier job in a full-time competitive work situation. She earns half of what she used to, but is paid more than the minimum wage. She is considered engaged in a substantial gainful activity. She cannot take the credit.

Example 5 shows a person who might not be considered to be engaged in a substantial gainful activity.

Example (5): John, who retired on disability, took a job with a former employer on a trial basis. The purpose of the job was to see if John could do the work. The trial period lasted for some time during which John was paid at a rate equal to the minimum wage. However, because of John's disability, only light duties of a nonproductive, make-work nature were given him. Unless the activity is both substantial and gainful, John is not engaged in a substantial gainful activity. The activity was gainful because John was paid at a rate at or above the minimum wage. However, the activity was not substantial because the duties were of a nonproductive, make-work nature. Therefore, these facts do not, by themselves, establish John's ability to engage in substantial gainful activity.

Figuring the Credit

If you want us to, we will figure the credit for you. For more details, see the Form 1040 instructions on page 13 under **IRS Will Figure Your Tax and Some of Your Credits.**

If you figure the credit yourself, first fill out Form 1040 through line 41. Then read the instructions below.

Line-by-Line Instructions

Schedule R is divided into three parts. We have provided instructions for many of the lines on the schedule. Lines that are not explained below are self-explanatory. For more information on the credit, get **Publication 524**, Credit for the Elderly and the Permanently and Totally Disabled.

Part I

Filing Status and Age

In general, the largest amount you can use to figure the credit is based on your filing status and age, and, if you are married and file a joint tax return, on your spouse's age. Check the box for your filing status and age. Check only one box.

Single.—Check the box on line 1 or line 2 if your filing status on Form 1040 is Single, Head of Household, or Qualifying Widow(er) with Dependent Child.

Married persons.—If you were married at the end of 1985, generally you must file a joint return to take the credit. However, if your filing status on Form 1040 is Married Filing Separate, you may take the credit only if you lived apart from your spouse **ALL** year.

Note: *If you were married at the end of 1985 but you meet the special rules for filing as head of household, you do not have to live apart from your spouse all year. For information on filing status and the special rules for married persons who live apart, see page 5 of the Form 1040 instructions.*

Nonresident aliens.—A person who is a nonresident alien for any part of the year may take the credit only if:

a. He or she is married to a U.S. citizen or resident alien at the end of the tax year; and

b. The couple elects to file a joint return.

Part II

Statement of Permanent and Total Disability

If you checked the box on line 2, 4, 5, 6, or 9 in Part I, and you did not file a physician's statement for 1983 or an earlier year, or you filed a statement for 1984 and your physician checked box A on the statement, you must have your physician complete a statement showing that:

- You were permanently and totally disabled on the date you retired; or
- If you retired before January 1, 1977, you were permanently and totally disabled on January 1, 1976, or January 1, 1977.

You must attach this statement to Form 1040. You can use the physician's statement in Part II for this purpose. The physician should show on the statement whether the disability has lasted or can be expected to last continuously for at least a year, or whether there is no reasonable probability that the disabled condition will ever improve. If you file a joint tax return and you checked the box on line 5, you and your spouse must each file a statement. Please note that you should keep a copy of this statement with your tax records.

If you filed a physician's statement for 1983 or an earlier year, or you filed a statement for 1984 and your physician checked box B on the statement, you do not have to attach another physician's statement for 1985. However, you must check the box on line 2 in Part II to certify: that you filed a physician's statement in an earlier year; you were permanently and totally disabled during 1985; and you were unable to engage in any substantial gainful activity during 1985 because of your physical or mental condition.

If the Veterans' Administration (VA) certifies that you are permanently and totally disabled, you can file **Form 6004** instead of the physician's statement. Form 6004 must be signed by a person authorized by the VA to do so. You can get Form 6004 from the VA.

Part III

Figure the Amount of Your Credit

Line 11.—If you checked the box on line 2, 4, 5, 6, or 9 in Part I, complete line 11 as follows:

- If you checked the box on line 2, 4, or 9, include on line 11 the total amount of disability income that you reported on Form 1040.
- If you checked the box on line 5, include on line 11 the total amount of disability income for both you and your spouse that you reported on Form 1040.
- If you checked the box on line 6, include on line 11 $5,000 plus the amount of disability income that you reported on Form 1040, which was for the spouse who was under 65.

Example (1): Bob Brown, age 63, retired on permanent and total disability in 1985. He received $4,000 of taxable disability payments that he reported on Form 1040, line 7. He filed a joint return with his wife who was age 67 in 1985. Bob includes on line 11 of Schedule R $9,000 ($5,000 plus the $4,000 of taxable disability payments he reported on Form 1040).

Example (2): John checked the box on line 2 and enters $5,000 on line 10. He received $3,000 of taxable disability payments; therefore, he enters $3,000 on line 11. John also enters $3,000 on line 12 (the smaller of line 10 or line 11). The largest amount he can use to figure the credit is $3,000.

Lines 13 through 18.— The amount on which you figure your credit may be reduced if you received certain types of nontaxable pensions and annuities, **OR** if your adjusted gross income on Form 1040, line 33, is more than a certain dollar amount, depending on which box you checked in Part I. Complete lines 13 through 18 as applicable.

Line 13.—Include on line 13 any of the following nontaxable pensions, annuities, or disability benefits that you (and your spouse if you file a joint return) received for 1985:

- The part of social security benefits (before deduction of Medicare premiums) you received that are not included in income.

Note: *If your social security benefits are reduced because of workers' compensation benefits, the workers' compensation benefits are treated as social security benefits for purposes of completing line 13.*

- The part of tier 1 railroad retirement benefits received under the Railroad Retirement Act of 1974 that are not included in income.
- Veterans' pensions (but not military disability pensions).
- Any other pension, annuity, or disability benefit that is excluded from income under any provision of Federal law other than the Internal Revenue Code. (Do not include amounts that are treated as a return of your cost of a pension or annuity.)

Do not include on line 13 any pension, annuity, or similar allowance for personal injuries or sickness resulting from active service in the armed forces of any country or in the Coast and Geodetic Survey or the Public Health Service, or as a disability annuity payable under Section 808 of the Foreign Service Act of 1980.

For more details, see Publication 524.

SCHEDULE SE
(Form 1040)
Department of the Treasury
Internal Revenue Service (X)

Computation of Social Security Self-Employment Tax

▶ See Instructions for Schedule SE (Form 1040).
▶ Attach to Form 1040.

OMB No. 1545-0074
1985
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Name of **self-employed** person (as shown on social security card)

Social security number of **self-employed** person ▶

Part I Regular Computation of Net Earnings From Self-Employment

Note: *If you performed services for certain churches or church-controlled organizations and you are not a minister or a member of a religious order, see the instructions.*

1 Net farm profit or (loss) from Schedule F (Form 1040), line 39, and farm partnerships, Schedule K-1 (Form 1065), line 13a	1		
2 Net profit or (loss) from Schedule C (Form 1040), line 33, Schedule K-1 (Form 1065), line 13a (other than farming), and Form W-2 wages of $100 or more from an electing church or church-controlled organization. (See instructions for other income to report.)	2		

Note: ☐ *Check here if you are* ***exempt*** *from self-employment tax on your earnings as a minister, member of a religious order, or Christian Science practitioner because you filed* ***Form 4361***.

See instructions for kinds of income to report. If you have other earnings of $400 or more that are subject to self-employment tax, include those earnings on line 2.

Part II Optional Computation of Net Earnings From Self-Employment (See "Who Can Use Schedule SE")

Generally, this part may be used **only** if you meet any of the following tests:

A Your gross farm income (Schedule F (Form 1040), line 12) was not more than $2,400; or

B Your gross farm income (Schedule F (Form 1040), line 12) was more than $2,400 and your net farm profits (Schedule F (Form 1040), line 39) were less than $1,600; or

C Your net nonfarm profits (Schedule C (Form 1040), line 33) were less than $1,600 and also less than two-thirds (⅔) of your gross nonfarm income (Schedule C (Form 1040), line 5).

See instructions for other limitations.

3 Maximum income for optional methods	3	$1,600	00
4 Farm Optional Method—If you meet test A or B above, enter: the smaller of two-thirds (⅔) of gross farm income from Schedule F (Form 1040), line 12, and farm partnerships, Schedule K-1 (Form 1065), line 13b; or $1,600	4		
5 Subtract line 4 from line 3	5		
6 Nonfarm Optional Method—If you meet test C above, enter: the smallest of two-thirds (⅔) of gross nonfarm income from Schedule C (Form 1040), line 5, and Schedule K-1 (Form 1065), line 13c (other than farming); or $1,600; or, if you elected the farm optional method, the amount on line 5	6		

Part III Computation of Social Security Self-Employment Tax

7 Enter the amount from Part I, line 1, or, if you elected the farm optional method, Part II, line 4			7		
8 Enter the amount from Part I, line 2, or, if you elected the nonfarm optional method, Part II, line 6			8		
9 Add lines 7 and 8. If less than $400, do not fill in the rest of the schedule because you are not subject to self-employment tax. (**Exception:** If this line is less than $400 and you are an employee of an electing church or church-controlled organization, complete the schedule unless this line is a loss. See instructions.)			9		
10 The largest amount of combined wages and self-employment earnings subject to social security or railroad retirement tax (Tier 1) for 1985 is			10	$39,600	00
11 a Total social security wages and tips from Forms W-2 and railroad retirement compensation (Tier 1). **Note:** *U.S. Government employees whose wages are only subject to the 1.35% hospital insurance benefits tax (Medicare) and employees of certain church or church-controlled organizations should not include those wages on this line (see instructions)*	**11a**				
b Unreported tips subject to social security tax from Form 4137, line 9, or to railroad retirement tax (Tier 1)	**11b**				
c Add lines 11a and 11b			11c		
12 a Subtract line 11c from line 10.			12a		
b Enter your "qualified" U.S. Government wages if you are required to use the worksheet in Part III of the instructions.	**12b**				
c Enter your Form W-2 wages from an electing church or church-controlled organization.	**12c**				
13 Enter the smaller of line 9 or line 12a			13		
If line 13 is $39,600, fill in $4,672.80 on line 14. Otherwise, multiply line 13 by .118 and enter the result on line 14				.118	
14 Self-employment tax. Enter this amount on Form 1040, line 51			14		

For Paperwork Reduction Act Notice, see Form 1040 Instructions.

Schedule W
(Form 1040)
Department of the Treasury
Internal Revenue Service (X)

Deduction for a Married Couple When Both Work

▶ **For Paperwork Reduction Act Notice, see Form 1040 Instructions.**
▶ **Attach to Form 1040.**

OMB No. 1545-0074
1985
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Names as shown on Form 1040 | **Your social security number**

Step 1 Figure your earned income

		(a) You		(b) Your spouse
1 Wages, salaries, tips, etc., from Form 1040, line 7. (Do not include nondisability pensions or annuities.)	1		1	
2 Net profit or (loss) from self-employment (from Schedules C and F (Form 1040), Schedule K-1 (Form 1065), and any other earned income)	2		2	
3 Add lines 1 and 2. This is your total earned income	3		3	

Step 2 Figure your qualified earned income

4 Adjustments from Form 1040, lines 25, 26, 27, and any repayment of sub-pay included on line 31. (See instructions below.)	4		4	
5 Subtract line 4 from line 3. This is your qualified earned income. If the amount in column (a) or (b) is zero (-0-) or less, stop here. You may not take this deduction	5		5	

Step 3 Figure your deduction

6 Compare the amounts in columns (a) and (b) of line 5 above. Write the smaller amount here. (Write either amount if 5(a) and 5(b) are the same.) ***Do not write more than $30,000***	6	
7 Percentage used to figure the deduction (10%)	7	x .10
8 Multiply the amount on line 6 by the percentage on line 7. This is the amount of your deduction. Write the answer here and on Form 1040, line 30 ▶	8	

Instructions

Complete this schedule and attach it to your Form 1040 if you take the deduction for a married couple when both work. You may take the deduction if both you and your spouse:

- work and have qualified earned income, and
- file a joint return, and
- do not file **Form 2555** to exclude income or to exclude or deduct certain housing costs, and
- do not file **Form 4563** to exclude income.

There are three steps to follow in figuring the deduction on Schedule W.

Step 1 (lines 1, 2, and 3).—Figure earned income separately for yourself and your spouse.

Step 2 (lines 4 and 5).—Figure qualified earned income separately for yourself and your spouse by subtracting certain adjustments from earned income.

Step 3 (lines 6, 7, and 8).—Figure the deduction based on the **smaller** of:

- the qualified earned income entered in column (a) or (b) of line 5, whichever is less, **OR**
- $30,000.

Earned income.—This is generally income you receive for services you provide. It includes wages, salaries, tips, commissions, certain disability income, sub-pay, etc. (from Form 1040, line 7). It also includes income earned from self-employment (from Schedules C and F of Form 1040 and Schedule K-1 of Form 1065), and net earnings and gains (other than capital gains) from the disposition, transfer, or licensing of property that you created. Earned income does not include interest, dividends, social security or tier 1 railroad retirement benefits, IRA distributions, unemployment compensation, deferred compensation, or nontaxable income. It also does not include any amount your spouse paid you.

Caution: *Do not consider community property laws in figuring your earned income.*

Qualified earned income.—This is the amount on which the deduction is based. Figure it by subtracting certain adjustments from earned income.

These adjustments (and the related lines on Form 1040) are:

- Employee business expenses (from line 25).
- IRA deduction (from line 26).
- Keogh retirement plan deduction (from line 27).
- Repayment of supplemental unemployment benefits (sub-pay) included in the total on line 31. See the instructions on repayment of sub-pay on page 12 of the Form 1040 Instructions.

Enter the total of any adjustments that apply to your or your spouse's earned income in the appropriate column of line 4.

Example.—You earned a salary of $20,000 and had $3,000 of employee business expenses (Form 1040, line 25). Your spouse earned $17,000 and had an IRA deduction of $1,000 (Form 1040, line 26). Your qualified earned income is $17,000 ($20,000 minus $3,000) and your spouse's is $16,000 ($17,000 minus $1,000). Because your spouse's qualified earned income is less than yours, the deduction is figured on your spouse's income. Therefore, the deduction is $1,600 ($16,000 x .10).

Form **1040A**

Department of the Treasury — Internal Revenue Service

US Individual Income Tax Return (X) 1985

OMB No. 1545-0085

Step 1 Name and address

Use the IRS mailing label. If you don't have one, print or type:

Your first name and initial (if joint return, also give spouse's name and initial) | Last name | Your social security no.

Present home address (number and street) | Spouse's social security no.

City, town or post office, state, and ZIP code

Presidential Election Campaign Fund

Do you want $1 to go to this fund? . . . . ☐ Yes ☐ No

If joint return, does your spouse want $1 to go to this fund? ☐ Yes ☐ No

Step 2 Check your filing status

(Check only one)

1 ☐ Single (See if you can use Form 1040EZ.)

2 ☐ Married filing joint return (even if only one had income)

3 ☐ Married filing separate return. Enter spouse's social security number above and spouse's full name here. ____________

4 ☐ Head of household (with qualifying person). If the qualifying person is your unmarried child but not your dependent, write this child's name here. ____________

Step 3 Figure your exemptions

Always check the exemption box labeled Yourself. Check other boxes if they apply.

5a ☐ Yourself ☐ 65 or over ☐ Blind

b ☐ Spouse ☐ 65 or over ☐ Blind

Write number of boxes checked on 5a and b ______

c First names of your dependent children who lived with you ____________

Write number of children listed on 5c ______

d First names of your dependent children who did not live with you (see page 11). (If pre-1985 agreement, check here ☐ .) ____________

Write number of children listed on 5d ______

Attach Copy B of Form(s) W-2 here

e Other dependents:

1. Name	2. Relationship	3. Number of months lived in your home.	4. Did dependent have income of $1,040 or more?	5. Did you provide more than one-half of dependent's support?

Write number of other dependents listed on 5e ______

f Total number of exemptions claimed. (Also complete line 18.)

Add numbers entered on lines above ☐

Step 4 Figure your total income

6 Total wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.) 6 .

7 Interest income. (If the total is over $400, also attach Schedule 1, Part III.) 7 .

8a Dividends. (If the total is over $400, also attach Schedule 1, Part IV.) Total. 8a . **8b** Exclusion (see page 16). 8b .

Attach check or money order here

c Subtract line 8b from line 8a. Write the result on line 8c. 8c .

9a Unemployment compensation (insurance), from Form(s) 1099-G. Total received. 9a .

b Taxable amount, if any, from the worksheet on page 17 of the instructions. 9b .

10 Add lines 6, 7, 8c, and 9b. Write the total. This is your **total income**. ▶ 10 .

Step 5 Figure your adjusted gross income

11 Individual retirement arrangement (IRA) deduction, from the worksheet on page 19. 11 .

12 Deduction for a married couple when both work. Complete and attach Schedule 1, Part I. 12 .

13 Add lines 11 and 12. Write the total. These are your **total adjustments**. 13 .

14 Subtract line 13 from line 10. Write the result. This is your **adjusted gross income**. ▶ 14 .

For **Privacy Act and Paperwork Reduction Act Notice**, see page 41.

Form **1040A** (1985)

1985 **Form 1040A** Page 2

Step 6

Figure your taxable income

15 Write the amount from line 14. 15 .

16a If you made charitable contributions, write your cash contributions. (If $3,000 or more to any one organization, see page 21.) 16a .

b Write your noncash contributions. If over $500, you must attach Form 8283. 16b .

c Add lines 16a and 16b. Write the total. 16c .

d Divide the amount on line 16c by 2 and write the result. 16d .

17 Subtract line 16d from line 15. Write the result. 17 .

18 Multiply $1,040 by the total number of exemptions claimed on line 5f. See the chart on page 22 of the instructions. 18 .

19 Subtract line 18 from line 17. Write the result. This is your **taxable income**. ▶ 19 .

Step 7

Figure your tax, credits, and payments
(including advance EIC payments)

If You Want IRS to Figure Your Tax, See Page 22 of the Instructions.

20 Find the tax on the amount on line 19. Use the tax table, pages 31–36. 20 .

21a Credit for child and dependent care expenses. Complete and attach Schedule 1, Part II. 21a .

b Partial credit for political contributions for which you have receipts. See page 24 of the instructions. 21b .

22 Add lines 21a and 21b. Write the total. 22 .

23 Subtract line 22 from line 20. Write the result. (If line 22 is more than line 20, write -0- on line 23.) This is your **total tax**. ▶ 23 .

24a Total Federal income tax withheld. This should be shown in Box 9 of your W-2 form(s). (If line 6 is more than $39,600, see page 25 of the instructions.) 24a .

b Earned income credit, from the worksheet on page 27 of the instructions. See page 26 of the instructions. 24b .

25 Add lines 24a and 24b. Write the total. These are your **total payments**. ▶ 25 .

Step 8

Figure your refund or amount you owe

26 If line 25 is larger than line 23, subtract line 23 from line 25. Write the result. This is the **amount of your refund**. 26 .

27 If line 23 is larger than line 25, subtract line 25 from line 23. Write the result. This is the **amount you owe**. Attach check or money order for full amount payable to "Internal Revenue Service." Write your social security number and "1985 Form 1040A" on it. 27 .

Step 9

Sign your return

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Your signature X — Date — Your occupation

Spouse's signature (if joint return, both must sign) X — Date — Spouse's occupation

Paid preparer's signature X — Date — Preparer's social security no.

Firm's name (or yours, if self-employed) — Employer identification no.

Address and ZIP code — Check if self-employed ☐

1985 Schedule 1 (Form 1040A)

OMB No. 1545-0085

Name(s) as shown on Form 1040A. Your social security number

You MUST complete and attach Schedule 1 to Form 1040A if you:

- Claim the deduction for a working married couple (complete **Part I**)
- Claim the credit for child and dependent care expenses (complete **Part II**)
- Have over $400 of interest income (complete **Part III**)
- Have over $400 of dividend income (complete **Part IV**)

Part I

Deduction for a married couple (filing a joint return) when both work (see page 20)

Complete this part to figure the amount you can deduct on Form 1040A, line 12. Attach Schedule 1 to Form 1040A.

		(a) You	(b) Your spouse
1 Wages, salaries, tips, etc., from Form 1040A, line 6.	1	.	.
2 IRA deduction, if any, from Form 1040A, line 11.	2 —	.	— .
3 Subtract line 2 from line 1. Write the result.	3 =	.	= .
4 Write the amount from line 3, column (a) or (b) above, whichever is smaller.	4		.
5 Percentage used to figure the deduction (10%).	5		× .10

6 Multiply the amount on line 4 by the percentage on line 5. Write your answer here and on Form 1040A, line 12. 6 = .

Part II

Credit for child and dependent care expenses (see page 23)

Complete this part to figure the amount of credit you can take on Form 1040A, line 21a. Attach Schedule 1 to Form 1040A.

1 Write the number of qualifying persons who were cared for in 1985. (See the instructions for the definition of a qualifying person.) 1

2 Write the amount of **qualified** expenses you incurred and actually paid in 1985 for the care of the qualifying person, but DO NOT write more than $2,400 ($4,800 if you paid for the care of two or more qualifying persons). 2 .

3 • If **unmarried** at the end of 1985, write your earned income on line 3c, OR
• If **married,** filing a joint return for 1985, you must complete lines 3a and 3b.

a. Write your earned income 3a .

b. Write your spouse's earned income 3b .

c. Compare the amounts on lines 3a and 3b, and write the **smaller** of the two amounts on line 3c. 3c .

4 Compare the amounts on lines 2 and 3c. Write the **smaller** of the two amounts here. 4 .

5 Write the percentage from the table below that applies to the amount on Form 1040A, line 15.

If line 15 is: Over—	But not over—	Percentage is:	If line 15 is: Over—	But not over—	Percentage is:
$0	10,000	30% (.30)	$20,000	22,000	24% (.24)
10,000	12,000	29% (.29)	22,000	24,000	23% (.23)
12,000	14,000	28% (.28)	24,000	26,000	22% (.22)
14,000	16,000	27% (.27)	26,000	28,000	21% (.21)
16,000	18,000	26% (.26)	28,000		20% (.20)
18,000	20,000	25% (.25)			

5 × .

6 Multiply the amount on line 4 by the percentage on line 5. Write the result here and on Form 1040A, line 21a. 6 = .

1985 Schedule 1 (Form 1040A)

OMB No. 1545-0085

Name(s) as shown on Form 1040A. (Do not complete if shown on other side.)

Your social security number

Part III Interest income (see page 15)

Complete this part and attach Schedule 1 to Form 1040A if you received over $400 in interest income.

1 List name of payer	Amount
	$.
	$.
	$.
	$.
	$.
	$.
	$.
	$.
	$.
	$.
	$.
	$.
	$.
	$.
	$.

2 Add amounts on line 1. Write the total here and on Form 1040A, line 7. 2 .

Part IV Dividend income (see page 16)

Complete this part and attach Schedule 1 to Form 1040A if you received over $400 in dividends.

1 List name of payer	Amount
	$.
	$.
	$.
	$.
	$.
	$.
	$.
	$.
	$.
	$.
	$.
	$.
	$.
	$.
	$.

2 Add amounts on line 1. Write the total here and on Form 1040A, line 8a. 2 .

Department of the Treasury - Internal Revenue Service

Form **1040EZ** **Income Tax Return for Single filers with no dependents** (X) **1985**

OMB No. 1545-0675

Name & address

Use the IRS mailing label. If you don't have one, please print:

▶

Print your name above (first, initial, last)

Present home address (number and street)

City, town, or post office, state, and ZIP code

Please print your numbers like this.

1 2 3 4 5 6 7 8 9 0

Your social security number

☐☐☐ ☐☐ ☐☐☐☐

Presidential Election Campaign Fund
Do you want $1 of your tax to go to this fund? ▶ Yes ☐ No ☐

Dollars Cents

Figure your tax

1 Total wages, salaries, and tips. This should be shown in Box 10 of your W-2 form(s). (Attach your W-2 form(s).) 1

2 Interest income of $400 or less. If the total is more than $400, you cannot use Form 1040EZ. 2

Attach Copy B of Form(s) W-2 here

3 Add line 1 and line 2. This is your **adjusted gross income.** 3

4 Allowable part of your cash charitable contributions. See instructions for line 4 on back of this form. 4

5 Subtract line 4 from line 3. 5

6 Amount of your personal exemption. 6 1,040.00

7 Subtract line 6 from line 5. If line 6 is larger than line 5, enter 0 on line 7. This is your **taxable income.** 7

8 Enter your Federal income tax withheld. This should be shown in Box 9 of your W-2 form(s). 8

9 Use the **single** column in the tax table on pages 31-36 of the Form 1040A instruction booklet to find the **tax** on your taxable income on **line 7**. Enter the amount of tax. 9

Refund or amount you owe

10 If line 8 is larger than line 9, subtract line 9 from line 8. Enter the **amount of your refund.** 10

Attach tax payment here

11 If line 9 is larger than line 8, subtract line 8 from line 9. Enter the **amount you owe.** Attach check or money order for the full amount, payable to "Internal Revenue Service." 11

Sign your return

I have read this return. Under penalties of perjury, I declare that to the best of my knowledge and belief, the return is true, correct, and complete.

Your signature Date

For IRS Use Only—Please do not write in boxes below.

1 234 5

OCR Form
Do NOT Photocopy

For Privacy Act and Paperwork Reduction Act Notice, see page 41.

1985 Instructions for Form 1040EZ

You can use this form if:

- Your filing status is single.
- You do not claim exemptions for being 65 or over, OR for being blind.
- You do not claim any dependents.
- Your taxable income is less than $50,000.
- You deduct only certain cash charitable contributions. See instructions for line 4, below.
- You had **only** wages, salaries, and tips, and your interest income was $400 or less. **Caution:** If you received tips (including allocated tips) that you did not report to your employer, you may not be able to use Form 1040EZ. See page 15 in the **Instructions for preparing 1040EZ and 1040A.**

If you can't use this form, you must use Form 1040A or Form 1040 instead. See pages 4 through 6 in the instruction booklet. If you are uncertain about your filing status, dependents, or exemptions, read the step-by-step instructions for Form 1040A that begin on page 7.

Completing your return

It will make it easier for us to process your return if you do the following:

1. Keep your numbers inside the boxes.
2. Do not use dollar signs.

You may find calculations easier if you round off cents to whole dollars. See page 13 of the instruction booklet for details.

Name and address

Use the mailing label we sent you. After you complete your return, carefully place the label in the name and address area. Mark through any errors on the label and print the correct information right on the label. If you don't have a label, print the information on the name and address lines.

Presidential election campaign fund

Congress set up this fund to help pay for Presidential election campaigns. You may have one of your tax dollars go to this fund by checking the "Yes" box. Checking the "Yes" box does not change the tax or refund shown on your return.

Figure your tax

Line 1. Enter on line 1 the total amount you received in wages, salaries, and tips. This should be shown in Box 10 of your 1985 wage statement(s), **Form W-2**. If you don't receive your W-2 form by February 15, contact your local IRS office. Attach the first copy or Copy B of your W-2 form(s) to your return.

Line 2. Enter on line 2 the total interest income you received from all sources, such as banks, savings and loans, and credit unions. You should receive a **Form 1099-INT** from each institution that paid you interest. You cannot use Form 1040EZ if your total interest income is over $400.

Line 4. You can deduct **one-half** of what you gave in cash (including checks and money orders) to qualified charitable organizations in 1985. But if you gave $3,000 or more to any one organization, or you made any noncash contributions, you cannot use Form 1040EZ. See page 20 of the instruction booklet for information on qualified charitable organizations and other limitations. Enter on line 4 **one-half** of your total cash contributions.

Line 6. Every taxpayer is entitled to one $1,040 personal exemption. If you are also entitled to additional exemptions for being 65 or over, for blindness, for your spouse, or for your dependent children or other dependents, you cannot use Form 1040EZ.

Line 8. Enter the amount of Federal income tax withheld. This should be shown in Box 9 of your 1985 W-2 form(s). If you had two or more employers and had total wages of over $39,600, see page 25 of the instruction booklet. If you want IRS to figure your tax for you, complete lines 1 through 8, sign, and date your return. If you want to figure your own tax, continue with these instructions.

Line 9. Use the amount on line 7 to find your tax in the tax table on pages 31-36 of the instruction booklet. Be sure to use the column in the tax table for **single** taxpayers. Enter the amount of tax on line 9. If your tax from the tax table is zero, enter 0.

Refund or amount you owe—Compare line 8 with line 9

Line 10. If line 8 is larger than line 9, you are entitled to a refund. Subtract line 9 from line 8, and enter the result on line 10.

Line 11. If line 9 is larger than line 8, you owe more tax. Subtract line 8 from line 9, and enter the result on line 11. Attach your check or money order for the full amount. Write your social security number and "1985 Form 1040EZ" on your payment.

Sign your return

You must sign and date your return. If you pay someone to prepare your return, that person must also sign it below the space for your signature and supply the other information required by IRS. See page 28.

Mailing your return

File your return by **April 15, 1986**. Mail it to us in the addressed envelope that came with the instruction booklet. If you don't have an addressed envelope, see page 30 of the instruction booklet for the address.

Department of the Treasury
Internal Revenue Service

Instructions for preparing

1985 1040EZ and 1040A

From the Commissioner

There are two tax forms in this tax package—**Form 1040EZ**, for certain single taxpayers with no dependents, and **Form 1040A**. Even if you qualify to use Form 1040EZ or Form 1040A, it might benefit you to use **Form 1040** instead. For example, if you own a home, you may want to itemize your deductions; to do so, you must file Form 1040. See pages 4 through 6 to determine which form to use and whether itemizing deductions will help you.

There have been a number of changes to the forms this year because of tax law changes that are effective for 1985. Most importantly, the Tax Table has been adjusted so that inflation will not increase your tax. Similarly, the amount allowed as a deduction for each exemption has been increased to $1,040 and the zero bracket amounts for all filing statuses have been increased. Other major changes are explained on page 2 under **Important tax law changes**. I urge you to read these carefully before you begin to prepare your return this year.

Be sure to report all your income. In fairness to the vast majority of taxpayers who correctly report all their income, we make every effort to identify others who understate their income. If we must increase your tax liability after you file your return, it can be more costly for you than accurate reporting when you file because of interest and penalties you may be charged.

Many people find that rounding off cents to whole dollars makes calculations easier. Rounding is easy too. Just drop amounts under 50 cents and increase amounts that are 50 cents or more to the next whole dollar. See the instructions on page 13.

After completing your return, check to make sure it is correct, sign it, and mail it early. Please be sure to keep a copy for your records. If you have suggestions for improving the forms or instructions, please write and let us know.

Finally, last year some of you received your refunds later than usual because of problems that arose from major changes we made to our returns processing system. We regret the difficulties and inconvenience that resulted. The changes were necessary to enable us to keep pace with increased demands on our employees and equipment. We believe that last year's problems have been resolved, and we are continuing to make every effort to improve the level of service to the public.

Roscoe L. Egger, Jr.
Commissioner of Internal Revenue

Important tax law changes

Exemption for children of divorced or separated parents

Generally, for 1985, if you did not have custody of your child, you may claim that child as your dependent only if:

- the parent who had custody of that child waives the right to claim the exemption by completing **Form 8332**, Release of Claim to Exemption for Child of Divorced or Separated Parents, and you attach that form to your tax return, OR
- a divorce decree or written agreement executed before 1985 states that you are entitled to claim the child's exemption, and you paid at least $600 for the child's support.

For more details, see **Children of divorced or separated parents** on page 12.

Deduction for charitable contributions

Generally, for 1985, if you do not itemize deductions, you may deduct one-half of your qualified charitable contributions. If you gave over $3,000 to any one organization, or if you made any noncash contributions, you CANNOT use Form 1040EZ. See the instructions on page 20 for more details and for other new rules that apply to noncash contributions.

Earned income credit

For 1985, the income limit for the credit has been increased to $11,000. See the instructions on page 26.

Important reminders

Social security benefits may be taxable

If you received social security benefits in 1985, part of these benefits may be taxable. Be sure to read the **IRS Notice 703** that you should get from the Social Security Administration with **Form SSA-1099** by January 31, 1986. If part of your benefits are taxable, you MUST use Form 1040. See page 13 for more information.

Do you want more or less income tax withheld in 1986?

If the refund you receive is large, you may want to decrease your withholding for 1986. If you are a working married couple, or had two or more jobs, or had income not subject to withholding, you may need to have more tax withheld to avoid owing IRS a large amount when you file your return. See **Income tax withholding for 1986** on page 30.

Voluntary contributions to reduce the public debt

We often receive inquiries about how people may make voluntary contributions to reduce the public debt. If you wish to contribute, just enclose in your tax return envelope a separate check made payable to "Bureau of the Public Debt." Subject to the limitations on charitable contributions, you may deduct this contribution on your 1986 tax return. But please be sure to keep your contribution to reduce the public debt separate from any amount you owe on your tax return. Make your check for taxes payable to "Internal Revenue Service."

Mailing your return

If you received an envelope with your instruction booklet, please use it. Otherwise, see **Where to file** on page 30. You may be filing your return with a different Service Center this year because the Internal Revenue Service has changed the filing locations for several areas.

Telephone service for tax refund information

If it has been at least 10 weeks since you mailed your 1985 tax return, you may be able to call a special telephone number for your area to find out the status of your income tax refund. For details on how to use this service, see **How To Use Tele-Tax Information** on page 38.

How to use this instruction booklet

The instructions are divided into three sections. **Section 1** contains information about who must file a return and how to choose the correct form to use: Form 1040EZ, Form 1040A, or Form 1040. **Section 2** contains step-by-step instructions for Form 1040A. **Section 3** contains general information.

Section 1— Filing information

First, be sure you need to file a tax return

Your marital status, filing status, age, and gross income determine whether you have to file a tax return. Gross income usually means money, goods, and property you received that you must pay tax on. It does not include nontaxable benefits.

Use the following chart to see **whether you must file a tax return.**

You must file a tax return if—

Your marital status at the end of 1985 was:	and your filing status is:	and at the end of 1985 you were:	and your gross income was at least:
Single (including divorced and legally separated)	Single or Head of household	under 65 65 or over	$3,430 $4,470
Married with a dependent child (or a child who is claimed by his or her other parent under the rules for **Children of divorced or separated parents**) and living apart from your spouse during the last 6 months of 1985	Head of household	under 65 65 or over	$3,430 $4,470
Married and living with your spouse at end of 1985 (or on the date your spouse died)	Married, joint return	under 65 (both spouses) 65 or over (one spouse) 65 or over (both spouses)	$5,620 $6,660 $7,700
	Married, separate return	any age	$1,040
Married, not living with spouse at end of 1985	Married, joint or separate return	any age	$1,040
Widowed in 1984 or 1983 and not remarried in 1985	Single or Head of household	under 65 65 or over	$3,430 $4,470
	Qualifying widow(er) with dependent child	under 65 65 or over	$4,580 $5,620
Widowed before 1983 and not remarried in 1985	Single or Head of household	under 65 65 or over	$3,430 $4,470

Other filing requirements—

You must file a tax return if you received any advance earned income credit (EIC) payments from your employer. You must also file a tax return using Form 1040 if **any one** of the following applied for 1985:

either you could be claimed as a dependent on your parents' return and you had $1,040 or more in income that was not earned income—for example, taxable interest and dividends.

or you owe any special taxes, such as social security tax on tips you did not report to your employer.

or you owe uncollected social security tax or RRTA tax on tips you reported to your employer.

or you earned $400 or more from self-employment after you deduct your business expenses.

or you earned wages of $100 or more from a church or a church-controlled organization that is exempt from employer social security taxes.

or you were allowed to exclude income from sources within U.S. possessions and had gross income of $1,040 or more.

These rules apply to all U.S. citizens and resident aliens. They also apply to nonresident aliens and dual-status aliens who are married to U.S. citizens or residents at the end of 1985 and who have elected to be treated as resident aliens. Beginning in 1985, there are new rules to determine if you are a resident or nonresident alien. See **Publication 519**, U.S. Tax Guide for Aliens, for details.

***Tax Tip:** Even if you do not have to file a return, you should file one to get a refund of any Federal income tax withheld. You should also file to get a refund of earned income credit if you are eligible to take the credit.*

Second, be sure you use the tax form that is right for you

There are three tax forms for individuals—short Form 1040EZ for certain single taxpayers, Form 1040A, and Form 1040. All taxpayers may use Form 1040 if they want to, but you will probably save time if you are able to use one of the shorter forms instead. The following chart (pages 4 and 5) shows the kinds of filing statuses, exemptions, income, deductions, taxes, and credits that can be shown on each of these three forms. Use it to help determine **which form to use.**

	Filing status	Number of exemptions	Taxable income	Only income from
Form 1040EZ	Single only	Only one personal exemption for yourself	Only taxable income (line 7) of less than $50,000	• Wages, salaries, tips • Interest of $400 or less
Form 1040A	• Single • Married filing joint • Married filing separate • Head of household	All exemptions that you are entitled to claim	Only taxable income (line 19) of less than $50,000	• Wages, salaries, tips • Interest • Dividends • Unemployment compensation
Form 1040	• Single • Married filing joint • Married filing separate • Head of household • Qualifying widow(er) with dependent child	All exemptions that you are entitled to claim	Any amount of taxable income (line 37)	• Wages, salaries, tips • Interest • Dividends • Taxable social security and tier 1 railroad retirement benefits (see page 13) • Unemployment compensation • Self-employment • Rents and royalties (Schedule E) • Pensions and annuities • Taxable state and local income tax refunds • Capital gains (Schedule D) • Gain from the sale of your home (Form 2119) • Alimony received • All other sources

Form 1040EZ for single filers

Form 1040EZ can be used only by *single* filers who—

- claim only **one** personal exemption, and
- claim **no dependents,** and
- have income only from wages, salaries, and tips, and have interest income of $400 or less, and
- have taxable income of less than $50,000, and
- have no dividend income, and
- have no unemployment compensation.

If you use Form 1040EZ, the step-by-step instructions on the back of the form are the only ones you will need for completing most of the items. However, you will have to use the 1040A tax table on pages 31-36 to complete line 9 of Form 1040EZ.

Adjustments to income	Itemized deductions	Other taxes	Tax credits
No adjustments to income	No itemized deductions (However, you may deduct one-half of certain cash amounts you gave to charitable organizations)	No other taxes	No tax credits
Only adjustments to income for: • The deduction for a married couple when both work (Schedule 1, Part I) • The deduction for certain contributions to an IRA	No itemized deductions (However, you may deduct one-half of the amount you gave to charitable organizations)	Only advance earned income credit (EIC) payments	Only tax credits for: • Partial political contributions credit • Credit for child and dependent care expenses (Schedule 1, Part II) • Earned income credit
All adjustments to income: • Alimony paid • Penalty for early withdrawal of savings • Deduction for contributions to an IRA or Keogh plan • Moving expenses (Form 3903 or Form 3903F) • Employee business expenses (Form 2106) • Deduction for a married couple when both work (Schedule W) • Other adjustments	All itemized deductions (Use Schedule A): • State and local income taxes • Real estate taxes • Sales taxes • Interest paid • Charitable contributions • Medical and dental expenses • Casualty and theft losses • Miscellaneous deductions	All other taxes: • Advance earned income credit (EIC) payments • Self-employment tax (Schedule SE) • Tax on an IRA (Form 5329) • Alternative minimum tax (Form 6251) • Social security tax on tips not reported to your employer (Form 4137) • Uncollected social security tax on tips shown on your Form W-2 • All other income taxes	All tax credits: • Partial political contributions credit • Earned income credit • Credit for child and dependent care expenses (Form 2441) • Investment credit (Form 3468) • Jobs credit (Form 5884) • Foreign tax credit(Form 1116) • Credit for the elderly and the permanently and totally disabled (Schedule R) • Residential energy credit (Form 5695) • Qualified diesel-powered highway vehicles credit (Form 4136) • Mortgage interest credit (Form 8396) • All other credits

Can you itemize deductions?

Many people choose to file Form 1040 so they can itemize deductions. Itemizing often benefits you when you have large deductions for items such as real estate taxes, state and local income taxes, mortgage interest, or medical expenses.

It would generally benefit you to itemize deductions if—

Your filing status is:	**And your itemized deductions are:**
• Single or Head of household	• More than $2,390
• Married filing joint or Qualifying widow(er) with dependent child	• More than $3,540
• Married filing separate	• More than $1,770

Even if it does not benefit you to itemize deductions, you are still allowed to claim adjustments to income for such items as moving expenses or alimony paid. However, you must use Form 1040.

Taxpayers who must use Form 1040

Use the chart on pages 4 and 5 as a guide to see which form you can use. However, even if you can otherwise use Form 1040EZ or 1040A, you MUST use Form 1040 instead if any of the following special situations applies to you.

You MUST use Form 1040 if:

1. You received **any** of the following types of income:
   - Taxable social security or tier 1 railroad retirement benefits (see **Social security benefits** on page 13 to determine whether any of your benefits are taxable).
   - Unearned income of $1,040 or more (for example, taxable interest or dividends) and you can be claimed as a dependent on your parents' return.
   - Tips not reported to your employer on which you owe social security tax. See page 15.
   - Interest or dividend income received as a nominee (that is, in your name) for someone else.
   - Interest on securities transferred between interest payment dates. (You must also use Form 1040 if you paid, rather than received, the interest.)
   - Capital gain distributions or nontaxable distributions.
   - Bartering income (fair market value of goods or services you received in return for your goods or services).
2. Your marital and filing status situation is **any one** of the following:
   - You are married filing a separate return and your spouse itemizes. *(**Note:** You may be able to file Form 1040A if you are considered unmarried under the rules explained on page 9 for **Married persons who live apart**.)*
   - You file as a qualifying widow(er) with dependent child. (See the special rule on page 8 under **Box 2, Married filing a joint return.**)
   - You were a nonresident alien during any part of 1985 and you do not file a joint return. *(**Note:** You may have to file **Form 1040NR.**)*
   - At the end of 1985 you were married to a nonresident alien or dual-status alien who had U.S. source income and who has not elected to be treated as a resident alien. *(**Note:** You may use Form 1040A if you are considered unmarried under the rules explained on page 9 for **Married persons who live apart.**)*
3. You can exclude or deduct **any** of the following sources of income:
   - Qualified reinvested dividends from a qualified public utility. *(**Note:** You must also file **Schedule B** to take the exclusion.)*
   - Foreign earned income you received as a U.S. citizen or resident alien. *(**Note:** You must also file **Form 2555.**)*
   - Certain income received from sources in a U.S. possession. *(**Note:** You must also file **Form 4563.**)*
4. You made estimated tax payments in 1985 (or want to apply any part of your refund to your 1986 estimated tax). *(**Note:** If you did not pay enough tax, you may have to pay a penalty. See page 27.)*
5. You are a U.S. government employee or railroad employee representative and you can take a credit for excess hospital insurance benefits tax you paid in 1985. See page 25. *(**Note:** You must also file **Form 4469**.)*
6. You were a grantor of, or transferor to, a foreign trust that existed in 1985, OR you had an interest in, or authority over, a foreign bank account, securities account, or other foreign financial account. *(**Note:** You must also file **Schedule B.**)*
7. You were an employee of a church or a church-controlled organization that is exempt from employer social security taxes and you received wages of $100 or more. *(**Note:** You must also file **Schedule SE.**)*

***Tax Tip:** If your taxable income in 1985 is substantially larger than your average taxable income for the past three years, it may benefit you to "income average." But you must use Form 1040 to do so. Get **Schedule G,** Income Averaging, for details.*

Third, prepare and mail your tax return

After you have determined which form you can use, file only one of these forms as your tax return.

Instructions for Form 1040EZ are on the back of the form. Instructions for completing Form 1040A begin on the next page.

Mail your return in the envelope we sent you. If you don't have one or you moved after receiving your tax package, mail the return to the Service Center for your state. See the list on page 30.

File as soon as you can after January 1, 1986, but not later than **April 15, 1986.** If you need more time to file, you can get an automatic four-month extension by filing **Form 4868** by the due date of your return. If you file late, you may have to pay penalties and interest. See page 28 for details.

***Tax Tip:** Be sure to keep a copy of your tax return for your files.*

Section 2— Step-by-step Instructions for Form 1040A

Use these instructions when you prepare Form 1040A. They correspond to the steps and the entry lines on the form. They also refer you to IRS publications that you might find helpful.

Form 1040A and these instructions are separated into nine main steps. At the beginning of each step of the instructions is a filled-in example of the appropriate section of Form 1040A. You might find it helpful to refer to the examples as you complete your return.

The examples show a Form 1040A filled in for Jon and Lisa Brown. The Browns are filing a joint return for 1985 and have one son, whom they claim as a dependent. Both Jon and Lisa worked. They also had interest and dividend income. Jon, who was unemployed for part of 1985, received unemployment compensation. They contributed to two charities. They also paid a babysitter to care for their son while they worked.

Step 1 Name, address, and social security number

Department of the Treasury—Internal Revenue Service

US Individual Income Tax Return **1985** OMB No. 1545-0085

Use the IRS mailing label. If you don't have one, print or type:

```
JB    516-04-1492    575-10-1778     S08    3
JON T & LISA BROWN
885 SCOTT ST
ANYTOWN, MD 01234
```

IRS

name

Your social security no.

Spouse's social security no.

Tax Tip: If you changed your name because of marriage, divorce, etc., be sure the Social Security Administration (SSA) has the same name in its records that you have on your tax return. This prevents delays in processing your return.

Please use the mailing label we sent you, but don't attach it until you have completed your return. Mark through and correct any errors on it. Use of the label saves processing time.

If your post office does not deliver mail to your street address and you have a P.O. box, write your P.O. box number on the line for your present home address instead of your street address.

If you don't have a label, print or type the information in the spaces provided. On a joint return, if you and your spouse use different last names, separate the names with "and"—for example, "Jon Brown and Lisa Smith." Also write your own social security number and, if you are married, your spouse's number. On a joint return, be sure the numbers are in the same order as your first names. If you don't have a social security number, get **Form SS-5** from your local SSA office and file it with them. If you don't receive a number by the time your return is due, write "applied for" in the space for your social security number.

If your spouse is a nonresident alien, has no income, does not have a social security number and you file a separate return, write "NRA" in the space for your spouse's social security number. If you and your spouse file a joint return, your spouse must get a social security number.

Presidential Election Campaign Fund

Presidential Election Campaign Fund

Do you want $1 to go to this fund? . . . . ☒ Yes ☐ No

If joint return, does your spouse want $1 to go to this fund?. ☒ Yes ☐ No

Congress established this fund to support public financing of Presidential election campaigns. You may have $1 go to the fund by checking the YES box. On a joint return, each of you may choose whether to have $1 go to the fund.

Checking YES does not change the tax or refund shown on your return. This is NOT a political contribution, so you cannot claim this amount as a partial credit for political contributions on line 21b.

Step 2 Check your filing status— Boxes 1 through 4

1 ☐ Single (See if you can use Form 1040EZ.)
2 ☒ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security number above and spouse's full name here. ____________
4 ☐ Head of household (with qualifying person). If the qualifying person is your unmarried child but not your dependent, write this child's name here. ____________

Check **only** the filing status box that applies to you. In general, your filing status depends on whether you are considered single or married.

There is a different tax rate for each filing status. The lowest rate is ***married filing a joint return*** followed by ***head of household.*** The next higher tax rate is ***single.*** The highest tax rate is ***married filing a separate return.*** If more than one filing status applies to you, choose the filing status that will give you the lowest tax.

Box 1
Single

Tax Tip: *If you were widowed in 1983 or 1984 and have a dependent child, see the special rule below for widowed taxpayers.*

Check Box 1 if **any one** of the following applies as of December 31, 1985:

either you were never married,

or you were legally separated, according to your state law, under a decree of divorce or of separate maintenance,

or you were widowed before January 1, 1985, and did not remarry in 1985.

You may be able to file as head of household if you were married, living apart from your spouse, and you meet the tests explained on page 9 under **Married persons who live apart.**

Box 2
Married filing a joint return

Tax Tip: *If both you and your spouse received wages in 1985, you may be able to take a special deduction. See page 20 for more details.*

A husband and wife may file a joint return even if only one had income or they do not live together all year. However, both must agree to file jointly, and both must sign the return. On a joint return, each is responsible for the return. This means, for example, that if one spouse does not pay the tax due on the joint return, the other spouse may have to. You may file a joint return if **any one** of the following applies:

either you were married as of December 31, 1985, even if you did not live together at the end of 1985,

or your spouse died in 1985 and you did not remarry in 1985.

Note: *If you file a joint return for 1985, you may not, after the due date for filing that return, amend that return to file as married filing a separate return.*

Special rule for widowed taxpayers who have a dependent child. If your spouse died in 1983 or 1984 and you did not remarry in 1985, you may be able to file as a **qualifying widow(er) with dependent child** and use joint return tax rates to lower your tax. But you will have to use Form 1040 instead of Form 1040A. You can use this filing status if **all four** of the following apply:

1. You have a child (including stepchild or foster child) whom you claim as a dependent.
2. This child lived in your home for all of 1985 (except for temporary absences).
3. You paid over half the cost of keeping up your home for this child.
4. You could have filed a joint return with your spouse the year he or she died, even if you didn't actually do so.

If you can't file as qualifying widow(er) with dependent child, refer to page 9 to see if you can file as head of household. Otherwise, you must file as single.

Special rule for nonresident aliens and dual-status aliens. You may be able to file a joint return with your spouse if, at the end of 1985, you were a nonresident alien or a dual-status alien and were married to a citizen or resident alien of the United States. You and your spouse must also agree to be taxed on your combined worldwide income. For more details, see **How To Use Tele-Tax** on page 39 or get **Publication 519,** U.S. Tax Guide for Aliens.

Box 3
Married filing a separate return

Tax Tip: *If you were married in 1985, had a child living with you, and you lived apart from your spouse during the last 6 months of the year, see the special rule on page 9 for* ***Married persons who live apart.***

Some married couples file separate tax returns because each wants to be responsible only for his or her own tax.

However, in almost all instances, if you file a separate return, you will pay more Federal income tax. This is because the tax rate is higher for married persons filing separately. And in general, you cannot get certain important tax benefits. For example, if you file a separate return:

- You cannot take the deduction for a married couple when both work.
- You cannot take the credit for child and dependent care expenses in most instances.
- You cannot take the earned income credit.
- You will have to include in income more of any unemployment compensation or social security benefits you received in 1985 if you lived with your spouse at any time in 1985 than you would if you filed a joint return with your spouse.
- You must itemize your deductions if your spouse itemizes, even if it is not to your tax benefit to do so.

Special rules for filing a separate return

1. Generally, you report only your own income, exemptions, deductions, and credits. Different rules apply to taxpayers in community property states. *(See list on page 15.)* For more information, get **Publication 555,** Community Property and the Federal Income Tax.
2. If your spouse itemizes deductions, you must itemize and use Form 1040.
3. Each of you must enter the other's name and social security number in the spaces provided on the form. If your spouse does not file, check the boxes on line 5b that apply if you can claim the exemption(s) for your spouse.

Box 4 Head of household

This filing status is for unmarried individuals who provide a home for certain other persons.

Note: *If you were married in 1985, had a child living with you, and you lived apart from your spouse during the last 6 months of the year, see the special rule for* ***Married persons who live apart,*** *below.*

You may file as head of household if:

- You were unmarried as of December 31, 1985, and

either You provided over half the cost of keeping up a home that was the principal home of your **parent** whom you can claim as a dependent. Your parent did not have to live with you in your home.

or You provided over half the cost of keeping up a home in which you lived and in which one of the following also lived for more than 6 months (except for temporary absences, such as for school):

Tax Tip: *For 1985, the rules for head of household have changed. Generally, your qualifying relative need only have lived with you for more than 6 months instead of the whole year.*

1. Your **unmarried child** or **grandchild**. This child does not have to be your dependent. However, your foster child must qualify as your dependent.
2. Your **married child** or **grandchild** whom you can claim as a dependent. However, if your married child's other parent claims him or her as a dependent under the rules for **Children of divorced or separated parents** explained on page 12, your married child does not have to be your dependent.
3. Any **other relative** whom you can claim as a dependent. For the definition of "relative," see page 11.

Note: *You must write the child's name in the space provided on line 4 if the child is not your dependent. To determine whether someone is your "dependent," see the instructions for lines 5c through 5e that begin on page 11.*

Your "child" means your son, daughter, stepchild, or adopted child.

Your "grandchild" means a descendant of your son, daughter, or adopted child.

Special rules

- You do not qualify as head of household if your relative described in 2 or 3 above, or your foster child is your dependent under the rules for **Dependent supported by two or more taxpayers** (explained on page 12).
- If you received payments under the program for Aid to Families with Dependent Children (AFDC), and you used them to pay part of the cost of keeping up your home, you cannot count the payments as an amount you paid for keeping up your home. You must count these payments as support from someone else.
- **Married persons who live apart.** Even if you were not divorced or legally separated in 1985, you may be considered unmarried and use the head of household tax rate that is lower than that for married persons filing separate returns. This means that you may be able to claim the credit for child and dependent care expenses and the earned income credit. It also means that if your spouse itemized deductions, you do not have to. If you and your spouse each meet the tests, each of you can be treated as unmarried and use the head of household filing status.

Beginning in 1985, you are considered unmarried if **all five** of the following apply:

1. You file a separate return from your spouse, and
2. You lived apart from your spouse during the last 6 months of 1985, and
3. You provided over half the cost of keeping up your home for 1985, and
4. Your home was the principal home of your child or stepchild for more than 6 months of 1985, and
5. You claim this child or stepchild as your dependent.

However, you do not have to claim this child as your dependent if:

either you have signed **Form 8332**, Release of Claim to Exemption for Child of Divorced or Separated Parents, or a similar statement, agreeing not to claim the child's exemption for 1985,

or your spouse gave at least $600 toward the child's support in 1985, and your separate maintenance decree or written agreement was in effect before 1985, and it states that your spouse can claim the child as a dependent. This rule does not apply if your decree or agreement was changed after 1984 to specify that your spouse cannot claim the child's exemption.

For more information, see **Children of divorced or separated parents** on page 12.

Note: *You must write the child's name in the space provided on line 4 if the child is not your dependent.*

Step 3
Figuring your exemptions—Lines 5a through 5f

Always check the exemption box labeled Yourself. Check other boxes if they apply.

5a ☒ Yourself ☐ 65 or over ☐ Blind

b ☒ Spouse ☐ 65 or over ☐ Blind — Write number of boxes checked on 5a and b: 2

c First names of your dependent children who lived with you Sean — Write number of children listed on 5c: 1

d First names of your dependent children who did not live with you (see page 11). (If pre-1985 agreement, check here ☐ .) — Write number of children listed on 5d: ____

e Other dependents:

1. Name	2. Relationship	3. Number of months lived in your home.	4. Did dependent have income of $1,040 or more?	5. Did you provide more than one-half of dependent's support?

Write number of other dependents listed on 5e: ____

f Total number of exemptions claimed. (Also complete line 18.) — Add numbers entered on lines above: 3

***Tax Tip:** For 1985, the exemption amount has increased to $1,040.*

An exemption is a tax benefit. For each exemption you take—either for yourself, your spouse, or someone you claim as a dependent—you reduce by $1,040 the amount of income on which you must pay tax.

Line 5a. Exemptions for yourself

Please be sure to check the exemption box(es) that apply to you.

If you were:	You can take:
• Under 65 and not blind	• One exemption for yourself
• 65 or over and not blind	• Two exemptions for yourself
• Under 65 and blind	• Two exemptions for yourself
• 65 or over and blind	• Three exemptions for yourself

Age and blindness are determined as of December 31. However, if your 65th birthday was on January 1, 1986, you can take the extra age exemption for 1985.

Blindness. If you were completely blind, attach a statement to your return describing this condition.

If you were partially blind, you can take the blindness exemption if:

either you can't see better than 20/200 in your better eye with eyeglasses or contact lenses,

or your field of vision is 20 degrees or less.

If you were partially blind, attach a certified statement from your eye doctor describing this condition. If your eye condition is not likely to improve, you need to attach a statement only once. In later years, just mention that you have already filed a statement.

Line 5b. Exemptions for your spouse

The same rules apply for your spouse's exemptions as for yours. If you are filing a joint return, you can always take the exemptions that apply for your spouse.

If your spouse was:	You can take:
• Under 65 and not blind	• One exemption for your spouse
• 65 or over and not blind	• Two exemptions for your spouse
• Under 65 and blind	• Two exemptions for your spouse
• 65 or over and blind	• Three exemptions for your spouse

If you are filing a separate return, you can take exemptions for your spouse only if he or she—

1. is not filing a return, and
2. had no taxable income, and
3. was not the dependent of another person.

If at the end of 1985 you were divorced or legally separated, you cannot take an exemption for your former spouse.

Note: *You are considered as married for the whole year if, as of the end of 1985, you were separated under an interlocutory (not a final) decree of divorce.*

Death of your spouse. If your husband or wife died in 1985, and you did not remarry by the end of 1985, check the boxes for the exemptions you could have taken for your spouse on the date of death. For other filing instructions, see **Death of taxpayer** on page 29.

Lines 5c, 5d, and 5e. Exemptions for dependent children and other dependents

You can claim an exemption for each of your dependents. Each person you claim as a dependent must have been alive during some part of 1985. This includes a baby born in 1985 or a person who died in 1985.

On line 5c write the name of each dependent child who lived with you (except for temporary absences, such as for school or vacation).

On line 5d write the name of each dependent child who did not live with you most of the year. If you are claiming the child under the rules for **Children of divorced or separated parents** explained on page 12, you must either check the pre-1985 agreement box on line 5d, or attach **Form 8332**, Release of Claim to Exemption for Child of Divorced or Separated Parents.

On line 5e write the name and other information for other dependents.

Five tests to determine whether you can claim someone as a dependent

There are five tests to determine whether someone is your dependent: *relationship, married dependent, citizen or resident, income,* and *support* test.

Each dependent must meet **all five** of the following tests:

Test 1— **Relationship.** Your dependent must be:

either your relative,

or someone who lived in your home as a member of your household **all** year; the relationship must not violate local law.

The following are considered your *relatives:*

- Your child. Your child includes your son, daughter, stepchild, adopted child; a child who lived in your home as a family member, if placed with you by an authorized placement agency for legal adoption; and a foster child (any child who lived in your home as a family member for the whole year).
- Your grandchild.
- Your son-in-law, daughter-in-law.
- Your parent, grandparent, stepparent, parent-in-law.
- Your brother, sister, stepbrother, stepsister, brother-in-law, sister-in-law.
- If related by blood, your aunt, uncle, nephew, niece.

Any relationships that have been established by marriage are not ended by divorce or death.

Test 2— **Married dependent.** Your married dependent cannot file a joint return.

Note: *However, if neither the dependent nor the dependent's spouse is required to file, but they file a joint return to get a refund of all tax withheld, you may claim him or her if the other four tests are met.*

Test 3— **Citizen or resident.** The dependent must be:

either a U.S. citizen or resident alien,

or a resident of Canada or Mexico,

or your adopted child who is not a U.S. citizen, but who lived with you all year in a foreign country.

Test 4— **Income.** Generally, the dependent's gross income must be less than $1,040. Gross income does not include nontaxable income, such as welfare benefits or nontaxable social security benefits.

If, in 1985, your dependent was permanently and totally disabled and had gross income from services performed at a sheltered workshop school, do not include this gross income for purposes of the income test if:

- the medical care available at the workshop was the main reason your dependent was at the workshop, and
- the income earned by your dependent at the workshop was from activities that were incident to the medical care.

See **Publication 501**, Exemptions, for the definition of a sheltered workshop school.

Tax Tip: *Your child can take a $1,040 personal exemption on his or her own tax return if he or she files one. This is true even if you can also claim this child as a dependent on your own return.*

Exemptions for dependent children and other dependents (continued)

Special rules for your dependent child. Your dependent who is your child does not have to meet this income test if:

either your child was under 19 at the end of 1985,

or your child qualifies as a **student dependent.**

Your child is a "student dependent" if he or she:

- was enrolled as a full-time student at a school during any 5 months during 1985, or
- took a full-time, on-farm training course during any 5 months of 1985. (The course had to be given by a school or a state, county, or local government agency.)

To be a full-time student, the child must be enrolled in school for the number of hours or classes that the school considers to be full time.

School includes elementary, junior and senior high schools; colleges, universities; and technical, trade, and mechanical schools. It does not include on-the-job training courses or correspondence schools.

Test 5— **Support.** The general rule is that you had to provide over half the dependent's support in 1985. If you file a joint return, support can come from either spouse. For exceptions to the support test, see **Children of divorced or separated parents** and **Dependent supported by two or more taxpayers** below.

***Tax Tip:** If you care for a foster child, see **How To Use Tele-Tax** on page 39 or **Publication 501,** Exemptions, for special rules that apply.*

Support includes food, a place to live, clothing, medical and dental care, and education. Support also includes such items as a car and furniture, but only if they are given to the dependent, or if the dependent buys them, solely for his or her own use or benefit. In figuring support, use the actual cost of these items. However, you should figure the cost of a place to live at its fair rental value.

In figuring support, you must include money used by the dependent for his or her own support, even if this money was not taxable. Examples are social security and welfare benefits, gifts, and savings.

Support does **not** include such items as income and social security taxes, life insurance premiums, or funeral expenses for your deceased dependent. If your dependent is a student, do not include his or her scholarships.

Children of divorced or separated parents. Beginning in 1985, many of the rules for claiming a dependency exemption for a child of divorced or separated parents have changed. In general, the parent who has custody of the child or children for the greater part of the year is treated as having provided over half of the child's support if:

1. The child receives over half of his or her support from both of the parents, and
2. The child was in the custody of one or both of his or her parents for more than half of the year.

But there are two exceptions to this general rule, as explained below.

Parent who does not have custody. If you do not have custody (or you have custody for the shorter time), you can still claim the exemption for your child or children if:

either the parent having custody signs **Form 8332**, Release of Claim to Exemption for Child of Divorced or Separated Parents, or similar statement, agreeing not to claim the child's exemption. You must attach Form 8332, or similar statement, to your return.

or you gave at least $600 toward each child's support in 1985, and your divorce decree or written separation agreement was in effect before 1985, and it states that you can claim the child's exemption. You must check the pre-1985 agreement box on line 5d. (**Note:** This rule does not apply if your decree or agreement was changed after 1984 to specify that you cannot claim the child's exemption.)

***Tax Tip:** To figure the amount of support provided, a parent who has remarried may count the support furnished by the new spouse.*

Dependent supported by two or more taxpayers. Even if you did not provide more than half of another person's support, you might still be able to claim the person as a dependent if **ALL** of the following apply:

1. You and one or more other eligible person(s) together provided over half of another person's support, and
2. You provided more than 10% of that person's support, and
3. No one alone provided over half of that person's support, and
4. Tests 1 through 4 on page 11 are met, and
5. You attach **Form 2120,** Multiple Support Declaration, to your return. Each eligible person who paid over 10% of support must complete Form 2120 so you can attach these forms to your return. The form states that you alone will claim the person as a dependent for 1985.

An "eligible" person is someone who could have claimed another person as a dependent except that he or she did not provide more than half of that person's support.

Step 4
Figuring your total income

6	Total wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.)	6	9,080 .00
7	Interest income. (If the total is over $400, also attach Schedule 1, Part III.)	7	250 .00
8a	Dividends. (If the total is over $400, also attach Schedule 1, Part IV.) Total. 8a 240.00 **8b** Exclusion (see page 16). 8b 200 .00		
c	Subtract line 8b from line 8a. Write the result on line 8c.	8c	40 . 00
9a	Unemployment compensation (insurance), from Form(s) 1099-G. Total received."Repayment" 300.00 9a 3,000 .00		
b	Taxable amount, if any, from the worksheet on page 17 of the instructions.	9b	— 0 —
10	Add lines 6, 7, 8c, and 9b. Write the total. This is your **total income**. ▶	10	9, 370 .00

Rounding off to whole dollars

You may find calculations easier if you round off cents to the nearest whole dollar. But if you do round off, do so for all amounts. You can drop amounts that are less than 50 cents. For example, $129.39 becomes $129. Increase amounts that are 50 cents or more to the next whole dollar. For example, $235.67 becomes $236.

Refunds of state or local income taxes

If you received a refund, credit, or offset of state or local income taxes in 1985, the state or other taxing authority may send you a **Form 1099-G**, Statement for Recipients of Certain Government Payments, showing the amount of this refund, credit, or offset.

You **do not** have to include this amount in your income for 1985 if you filed—

- Form 1040EZ for 1984, or
- Form 1040A for 1984, or
- Form 1040 for 1984 and you **did not itemize** deductions on Schedule A of Form 1040.

Note: *If you itemized deductions on Form 1040 for 1984, you may have to report part or all of the amount shown on Form 1099-G as income on Form 1040 for 1985. See **How To Use Tele-Tax** (topic no. 134) on page 39 or **Publication 525,** Taxable and Nontaxable Income, for details.*

Social security benefits (and tier 1 railroad retirement benefits)

If you received social security benefits in 1985, you may have to include some of your benefits in income. If any of the social security benefits you received for 1985 are taxable, you MUST use Form 1040 instead of Form 1040EZ or Form 1040A. Social security benefits for this purpose include any monthly benefit under title II of the Social Security Act or a tier 1 railroad retirement benefit.

By January 31, 1986, you should receive **Form SSA-1099** or **Form RRB-1099** showing the total benefits paid to you for 1985 and the total amount of any benefits repaid in 1985.

Use the worksheet on page 14 to see if any of your benefits may be taxable for 1985. Keep the worksheet for your records; DO NOT file it with your return.

For more information, see **Publication 915,** Tax Information on Social Security Benefits (and Tier 1 Railroad Retirement Benefits).

Worksheet to determine if any of your social security and/or tier 1 railroad retirement benefits are taxable (keep for your records)

Check only one box:

☐ **a.** Single—write $25,000 on line M below.
☐ **b.** Married, filing a joint return—write $32,000 on line M below.
☐ **c.** Married, not filing a joint return and DID NOT live with your spouse at any time during 1985—write $25,000 on line M below.
☐ **d.** Married, not filing a joint return and you lived with your spouse at any time during 1985—write -0- on line M below.

Note: *If you checked Box **b** above, include your spouse's amounts on the appropriate lines below.*

A. Write the amount from **Box 5** of all your Forms SSA-1099 or Forms RRB-1099. (If a negative amount is shown in Box 5 on any of your forms, subtract that amount from the total of all other amounts in Box 5.) **A.**

Note: *If the amount on line A above is zero or less, stop here; none of your benefits are taxable this year.*

B. Divide the amount on line A above by 2. Write the result. **B.** .

C. Write your total wages, salaries, tips, etc., from Form(s) W-2. **C.** .

D. Write your total interest income. **D.** .

E. Write your total dividend income. **E.** .

F. Write the amount, if any, of your dividend exclusion. **F.** .

G. Subtract line F from line E. Write the result. **G.** .

H. Write the taxable amount, if any, of your unemployment compensation. **H.** .

I. Write the total amount of any interest income you received in 1985 that is exempt from Federal income tax, such as interest from municipal bonds. **I.** .

J. Add lines B, C, D, G, H, and I above. Write the total. **J.** .

K. Write the amount, if any, of your IRA deduction. **K.** .

L. Subtract line K from line J. Write the result. **L.** .

M. Write: $25,000 if you checked Box **a** or **c** above.
$32,000 if you checked Box **b** above.
-0- if you checked Box **d** above. **M.** .

If the amount on line **M** is equal to or more than the amount on line **L**, none of your benefits are taxable this year. You may use Form 1040EZ or Form 1040A, whichever applies. DO NOT list your benefits as income.

If the amount on line **L** is more than the amount on line **M**, some of your benefits are taxable this year. You MUST use Form 1040 instead of Form 1040EZ or Form 1040A.

Note: ***If your figures show that some of your benefits are taxable this year and you received benefits in 1985 that were for 1984, see Publication 915 for rules on a special election you may want to make that may reduce the amount of your taxable benefits.***

Figuring your total income (continued)

Special rules for taxpayers in community property states

Married couples living in community property states must follow state law to determine what is community property and what is individual property. Community property states are Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, and Washington.

Be sure to get **Publication 555,** Community Property and the Federal Income Tax. It explains the rules for couples living in community property states. In general, the special rules for reporting only your own income apply if:

1. You and your spouse lived apart all year, and
2. You do not file a joint return, and
3. You did not transfer community earned income to your spouse before the end of the year, and
4. Your spouse did not transfer community earned income to you before the end of the year.

Line 6.
Total wages, salaries, tips, etc.

Include the total of all income you received from wages, salaries, fringe benefits, and tips. This should be shown in Box 10 of the W-2 form that each employer is required to give you. For a joint return, also be sure to include your spouse's income on line 6.

If you don't have a W-2 form by January 31, ask your employer for one. If you don't get one from your employer by February 15, contact your local IRS office. You must still report your earnings even if you don't get a W-2 form from your employer. If you lose your W-2 form or the one that you have is incorrect, ask your employer for a new one.

Tip income. Be sure to report income from tips you actually received, even if the income is not included in Box 10 of your W-2. If you do not include in gross income the full amount of your tip allocation as shown on your W-2 form(s), you must be able to prove the smaller amount reported with adequate books and records. If you received tips of $20 or more in any month and you did not report the full amount to your employer, you generally will have to pay the social security tax on the tip income not included in Box 10 of your W-2 form. To figure this tax, complete and attach **Form 4137** to Form 1040. You may not file Form 1040A or Form 1040EZ. For more information on allocated tips, see **Publication 531,** Reporting Income From Tips.

Fringe benefits. If you used an employer-provided highway motor vehicle for both personal and business purposes and your employer included 100% of the value of the vehicle in your wages, tips, and other compensation box (Box 10) of your W-2 form, you MUST use Form 1040 together with **Form 2106**, Employee Business Expenses, to claim a deduction for the business use of the vehicle. You CANNOT use Form 1040A or 1040EZ. For more information on fringe benefits, get **Publication 525**, Taxable and Nontaxable Income.

Line 7.
Interest income

Report on line 7 your total interest income from banks, savings and loan associations, credit unions, savings bonds, seller-financed mortgages, etc. Include any interest that you received or that was credited to your account so you could withdraw it, even if it wasn't entered in your passbook.

Note: *Generally, amounts you received from money market funds are not interest income. Instead, you should report these amounts as dividends.*

Use Form 1040 instead of Form 1040A if:

either you received interest as a nominee for someone else,

or you received or paid accrued interest on securities transferred between interest payment dates.

Each payer should send you a **Form 1099-INT** showing interest you must report. Even if you do not receive a Form 1099-INT, you must report all taxable interest. For more information on interest income, see **How To Use Tele-Tax** *(topic no. 132)* on page 39 or **Publication 550,** Investment Income and Expenses.

Note: *Be sure each payer of interest income has your correct social security number. Otherwise, the payer may withhold 20% of the interest income. You may also be subject to penalties. For more information, see Publication 550.*

If the amount on line 7 is over $400, also complete and attach Schedule 1 (Form 1040A), Part III, Interest income.

Tax Tip: *If you redeemed a time savings deposit early, your interest statement may show a penalty for early withdrawal. You can deduct this penalty, but you must use* ***Form 1040*** *to take the deduction.*

Interest income (continued)

Tax-exempt interest. If you received a Form 1099-INT for tax-exempt interest, such as from municipal bonds, do not include this income on line 7. If you are completing Schedule 1 (Form 1040A), Part III, include in line 1 the tax-exempt interest as shown on Form 1099-INT. Several lines above line 2, put a subtotal of all interest income. Below this subtotal, write "Tax-Exempt Interest" and show the amount of this interest. Subtract this amount from the subtotal and write the result on line 2 of Part III.

In the example on page 13, the Browns reported $250 in taxable interest earned on their deposits in a savings account. Since the amount of interest they received was not more than $400, they did not have to complete the interest section of Schedule 1.

Line 8. Dividends

Use line 8 to report dividend income. There are three parts to this line.

Line 8a, Total. Report your total dividends on line 8a.

Each payer should send you a **Form 1099-DIV**. It will show you whether your dividend qualifies for the dividend exclusion. If you are unsure, contact the corporation. Report all taxable dividends even if you did not receive a Form 1099-DIV.

Note: *Be sure each payer of dividends has your correct social security number. Otherwise, the payer may withhold 20% of the dividend income. You may also be subject to penalties. For more information, see* ***Publication 550,*** *Investment Income and Expenses.*

If the amount on line 8a is over $400, also complete and attach Schedule 1 (Form 1040A), Part IV, Dividend income.

Use Form 1040 instead of Form 1040A if **any** of the following applies:

- You had capital gain distributions or nontaxable distributions.
- You received dividends as a nominee for someone else.
- You exclude qualified reinvested dividends from a qualified public utility.

Note: *Earnings from savings and loan associations, building and loan associations, or credit unions are often called dividends. But they are really interest and should be reported on line 7.*

Line 8b, Exclusion. You can exclude (subtract) up to $100 of qualifying dividend income. (You can exclude up to $200 on a joint return regardless of which spouse owns the stock.) On line 8b show the amount of your exclusion.

In the example on page 13, Jon Brown had $190 in dividends on stock he owned separately. Jon and Lisa also received $50 in dividends on stock they owned jointly. Since they are filing a joint return, they can claim a $200 dividend exclusion. If they had filed separate returns, Jon could have claimed a $100 dividend exclusion. However, Lisa could have claimed only a $25 dividend exclusion. This is because she is treated as having received one-half of the jointly-owned dividends.

Qualifying dividends. Only dividends from **domestic** corporations qualify for the dividend exclusion.

Nonqualifying dividends. Dividends from the following do **not** qualify for the exclusion:

- Money market funds, unless the corporation has told you how much of the dividend you can exclude.
- Foreign corporations.
- Real estate investment trusts (REITS).
- Exempt corporations (such as charitable organizations and farmers' cooperative associations).
- Employee stock ownership plans.

For more details on the dividend exclusion, get Publication 550.

Line 8c. Subtract line 8b from line 8a. Write your answer on line 8c. If it's less than zero, write -0-.

Line 9. Unemployment compensation

If you received unemployment compensation in 1985, you might have to pay tax on some or all of it. Your state will send you a **Form 1099-G**, Statement for Recipients of Certain Government Payments, showing the amount you were paid. Write this amount on line 9a. Then use the worksheet on page 17 to see if any of it is taxable.

Do not include on line 9a any supplemental unemployment benefits you received from a company-financed supplemental unemployment benefit fund. Instead, report these benefits as wages on line 6. If you pay back these supplemental unemployment benefits in a later year because you receive payments under the Trade Act of 1974, you can deduct the repayment. However, you must use Form 1040 to do so. For more details, get **Publication 525,** Taxable and Nontaxable Income.

Line 9. Unemployment compensation (continued)

Unemployment compensation worksheet

SAMPLE

Check only one box:

☐ **a.** Single—write $12,000 on line H below.
☒ **b.** Married filing a joint return—write $18,000 on line H below.
☐ **c.** Married not filing a joint return and lived with your spouse at any time during the year—write -0- on line H below.
☐ **d.** Married not filing a joint return and DID NOT live with your spouse at any time during the year—write $12,000 on line H below.

Here is a sample worksheet showing how the Browns figure how much, if any, of their unemployment compensation is taxable. Jon Brown received unemployment compensation of $3,000 in 1985. He was overpaid $300 and repaid this amount in 1985.

A. Write total unemployment compensation from Form(s) 1099-G. Also write this amount on line 9a of Form 1040A. **A.** 3,000.00
B. Write amount of any 1985 unemployment compensation payments repaid in 1985. Also write "repayment" and the amount in the space to the left of line 9a entry space. **B.** - 300.00
C. Subtract line B from line A. Write the result. **C.** = 2,700.00
D. Add lines 6, 7, and 8c of Form 1040A. Write the total. **D.** + 9,370.00
E. Add lines C and D. Write the total. **E.** = 12,070.00
F. Write the amount, if any, from line 11, IRA deduction. **F.** - -0-.
G. Subtract line F from line E. Write the result. **G.** = 12,070.00
H. Write: { $12,000 if you checked Box **a** or **d** above. $18,000 if you checked Box **b** above. -0- if you checked Box **c** above. } **H.** - 18,000.00
I. Subtract line H from line G. If zero or less, write -0- on line 9b of Form 1040A and do not complete lines J and K. **I.** = -0-.
J. Divide the amount on line I by 2. Write the result. **J.** ______.
K. Write the smaller of line C or line J. Also write this amount on line 9b of Form 1040A. **K.** ______.

Unemployment compensation worksheet (keep for your records)

Check only one box:

☐ **a.** Single—write $12,000 on line H below.
☐ **b.** Married filing a joint return—write $18,000 on line H below.
☐ **c.** Married not filing a joint return and lived with your spouse at any time during the year—write -0- on line H below.
☐ **d.** Married not filing a joint return and DID NOT live with your spouse at any time during the year—write $12,000 on line H below.

A. Write total unemployment compensation from Form(s) 1099-G. Also write this amount on line 9a of Form 1040A. **A.** ______.
B. Write amount of any 1985 unemployment compensation payments repaid in 1985. Also write "repayment" and the amount in the space to the left of line 9a entry space. **B.** - ______.
C. Subtract line B from line A. Write the result. **C.** = ______.
D. Add lines 6, 7. and 8c of Form 1040A. Write the total. **D.** + ______.
E. Add lines C and D. Write the total. **E.** = ______.
F. Write the amount, if any, from line 11, IRA deduction. **F.** - ______.
G. Subtract line F from line E. Write the result. **G.** = ______.
H. Write: { $12,000 if you checked Box **a** or **d** above. $18,000 if you checked Box **b** above. -0- if you checked Box **c** above. } **H.** - ______.
I. Subtract line H from line G. If zero or less, write -0- on line 9b of Form 1040A and do not complete lines J and K. **I.** = ______.
J. Divide the amount on line I by 2. Write the result. **J.** ______.
K. Write the smaller of line C or line J. Also write this amount on line 9b of Form 1040A. **K.** ______.

Step 5

Figuring your adjusted gross income

11	Individual retirement arrangement (IRA) deduction, from the worksheet on page 19.	11	.		
12	Deduction for a married couple when both work. Complete and attach Schedule 1, Part I.	12	190 .00		
13	Add lines 11 and 12. Write the total. These are your **total adjustments.**			13	190 .00
14	Subtract line 13 from line 10. Write the result. This is your **adjusted gross income.**		▶	14	9,180 . 00

Line 11. Deduction for contributions to an Individual Retirement Arrangement (IRA)

You can deduct contributions to your IRA for 1985 on line 11 of Form 1040A. Use the worksheet on page 19 to figure how much you can deduct.

You should receive a statement showing ALL contributions made to your IRA for 1985. Before you complete the worksheet on page 19, please note the following:

- If you made contributions to your IRA in 1985 that you deducted on your 1984 income tax return, DO NOT include those contributions in the worksheet on page 19 and DO NOT deduct them on your 1985 tax return. You have already deducted those contributions for 1984.
- If you made or will make contributions to your IRA in 1986 by April 15, 1986, that you want to deduct on your 1985 Form 1040A, be sure to include these contributions when you complete the worksheet on page 19.

Note: *If you deduct contributions that you have not yet made and you do not make the contributions by April 15, 1986, you should amend your tax return by filing* ***Form 1040X*** *to show the actual contributions you made to your IRA.*

If **any** of the following applies, you must use Form 1040 instead of Form 1040A:

- Your employer made contributions to your IRA under a Simplified Employee Pension (SEP) plan.
- You made deductible employee contributions (DECs) to your employer's qualified plan.
- You received any taxable distribution from your IRA.
- You received amounts from one IRA and transferred them to another IRA, or you received amounts from one qualified pension or profit-sharing plan and transferred them to an IRA. The amounts you received and transferred are called "rollover" contributions.
- You owe tax on any early distributions from your IRA, any excess contributions made to your IRA, or any excess accumulations in your IRA account.

For more information, see **How To Use Tele-Tax** (*topic no. 218*) on page 39 or **Publication 590,** Individual Retirement Arrangements (IRAs).

Married taxpayers. If both you and your spouse worked and you both have IRAs, figure each spouse's deduction separately using columns 1 and 2 of lines A through F of the worksheet. Then add the separate deductions and write the total amount on line 11 of Form 1040A.

If you made contributions to your nonworking spouse's IRA, complete lines A through N (column 1) of the worksheet and write the amount from line N on line 11 of Form 1040A.

Line 11. Deduction for contributions to an IRA (continued)

Worksheet to figure your IRA deduction
(keep for your records)

		(1) Your IRA	(2) Your working spouse's IRA
A.	Write IRA contributions you made in 1985 that you are deducting for 1985. ***Note:*** *Do not include on line A any amount you contributed in 1985 and deducted on your 1984 income tax return.*	**A.** .	**A.** .
B.	Write IRA contributions you made or will make in 1986 by April 15, 1986, that you are deducting for 1985.	**B.** .	**B.** .
C.	Add amounts on lines A and B. Write the total.	**C.** .	**C.** .
D.	Write your wages, salaries, and tips.	**D.** .	**D.** .
E.	Maximum amount.	**E.** 2,000.00	**E.** 2,000.00
F.	Compare amounts on lines C, D, and E. Write the **smallest** of the three amounts on line F. If you are married and made contributions to your nonworking spouse's IRA, go on to line G. Otherwise, stop here; add the amounts in columns 1 and 2 (if applicable) from line F, and write the total on Form 1040A, line 11.	**F.** .	**F.** .

Complete lines G through N only if you made contributions to your nonworking spouse's IRA and you file a joint return for 1985.

G.	Write IRA contributions made in 1985 for your nonworking spouse that you are deducting for 1985. ***Note:*** *Do not include on line G any amount you contributed in 1985 and deducted on your 1984 income tax return.*	**G.** .
H.	Write IRA contributions made or that will be made for your nonworking spouse in 1986 by April 15, 1986, that you are deducting for 1985.	**H.** .
I.	Add amounts on lines G and H. Write the total.	**I.** .
J.	Write the amount from line D (column 1) above.	**J.** .
K.	Maximum amount.	**K.** 2,000.00
L.	Compare amounts on lines I, J, and K. Write on line L the **smallest** of the three amounts.	**L.** .
M.	Add amounts on line F (column 1) and line L. Write the total, but **not more** than $2,250.	**M.** .
N.	Compare amounts on lines J and M. Write on line N the **smaller** of the two amounts. Also write this amount on Form 1040A, line 11.	**N.** .

Line 12. Deduction for a married couple (filing a joint return) when both work

If you are married and you and your spouse both work and file a joint return, you may be able to take a deduction that will reduce your income.

Complete and attach Schedule 1 (Form 1040A), Part I, to figure the deduction. Write the amount from line 6 of Part I on line 12 of Form 1040A.

Note: *Do not consider community property laws in figuring this deduction.*

In the example on page 18, the Browns deducted $190 on line 12 of their return because they both worked and they filed a joint return. Jon's wages were $7,180 and Lisa's wages were $1,900. Since Lisa's wages were the smaller of the two, they figured their deduction on her wages.

Here is a sample worksheet showing how the Browns figure their deduction on Schedule 1, Part I.

SAMPLE

			(a) You	(b) Your spouse
1	Wages, salaries, tips, etc., from Form 1040A, line 6.	1	7,180.00	1,900.00
2	IRA deduction, if any, from Form 1040A, line 11.	2 −	-0-.	− -0-.
3	Subtract line 2 from line 1. Write the result.	3 =	7,180.00	= 1,900.00
4	Write the amount from line 3, column (a) or (b) above, whichever is smaller.			4 1,900.00
5	Percentage used to figure the deduction (10%).			5 ×.10
6	Multiply the amount on line 4 by the percentage on line 5. Write your answer here and on Form 1040A, line 12.			6 = 190.00

Line 14. Adjusted gross income

Subtract line 13 from line 10. This is your adjusted gross income for 1985.

If line 14 is less than $11,000, you might be eligible for the earned income credit. See page 26 of the instructions for more details.

Step 6

Figuring your taxable income

15	Write the amount from line 14.			15	9,180.00
16a	If you made charitable contributions, write your cash contributions. (If $3,000 or more to any one organization, see page 21.)	16a	60.00		
b	Write your noncash contributions. If over $500, you must attach Form 8283.	16b	—0—		
c	Add lines 16a and 16b. Write the total.	16c	60.00		
d	Divide the amount on line 16c by 2 and write the result.			16d	30.00
17	Subtract line 16d from line 15. Write the result.			17	9,150.00
18	Multiply $1,040 by the total number of exemptions claimed on line 5f. See the chart on page 22 of the instructions.			18	3,120.00
19	Subtract line 18 from line 17. Write the result. This is your **taxable income.** ▶			19	6,030.00

Line 16. Allowable part of your charitable contributions

For 1985, you can deduct **one-half** of what you gave to certain charitable organizations. The amount you can deduct depends on how much you actually contributed to qualified organizations. Qualified organizations are religious, charitable, educational, scientific, or literary in purpose, or are those that work to prevent cruelty to children or animals.

__Tax Tip:__ For more details on what qualifies as a charitable contribution, get __Publication 526,__ Charitable Contributions.

Examples of contributions you CAN deduct:

- Gifts to churches, temples, synagogues, Salvation Army, Red Cross, Scouts, United Way, etc.
- Gifts to nonprofit schools and hospitals.
- Gifts to veterans' and certain cultural groups.

Examples of contributions you CANNOT deduct:

- Political contributions (but see line 21b instructions).
- Gifts to individuals, foreign organizations, and civic leagues.
- The value of your time or services.
- The cost of raffle, bingo, or lottery tickets.
- Value of blood given to a blood bank.

Contributions can be in cash (keep cancelled checks, receipts, or other reliable written records showing the name of the organization and the date and amount given), property, or out-of-pocket expenses you paid to do volunteer work. If you drive to and from the volunteer work, you may take 12 cents a mile or the actual cost of gas and oil. Add parking and tolls to the amount you claim under either method. But don't deduct any amounts that were repaid to you.

Line 16.
Charitable contributions (continued)

See Publication 526 for information on special rules that apply if:

either you gave cash gifts of more than 30% of your adjusted gross income shown on Form 1040A, line 15, or on Form 1040EZ, line 3;

or you gave gifts of ordinary income property that are more than 30% of your adjusted gross income shown on Form 1040A, line 15;

or you gave gifts of capital gain property to certain organizations that are more than 20% of your adjusted gross income shown on Form 1040A, line 15;

or you gave gifts of property that increased in value, made bargain sales to charity, or gave gifts of the use of property.

Line 16a. Write on line 16a all of your cash contributions (including out-of-pocket expenses). If you gave cash of $3,000 or more to any one organization, in the space provided, write the name of the organization and how much you gave.

Line 16b. Enter your total gifts of property. If the total is more than $500, you must complete and attach **Form 8283**, Noncash Charitable Contributions (Rev. October 1985). See **Recordkeeping** below for special rules on the records you must keep for gifts of property.

Note: *If you made cash contributions of $3,000 or more to any one organization, or if you made any noncash contributions, such as clothing, you CANNOT use Form 1040EZ. You must use Form 1040A.*

If you gave used items, such as clothing or furniture, deduct their fair market value at the time you gave them. Fair market value is what a willing buyer would pay a willing seller when neither has to buy or sell and both are aware of the conditions of the sale.

Line 16c. Add the amounts on lines 16a and 16b.

Line 16d. Divide the amount on line 16c by 2. Write the result on line 16d. This is the amount of your deductible charitable contributions.

Recordkeeping. Beginning in 1985, if you gave gifts of property, you should keep a receipt or written statement from the organization you gave the property to, or a reliable written record, that shows the organization's name and address, the date and location of the gift, and a description of the property. You should also keep reliable written records for each gift of property that include the following information:

- How you figured the property's value at the time you gave it. (If the value was determined by appraisal, you should also keep a signed copy of the appraisal.)
- The cost or other basis of the property if you must reduce it by any ordinary income or capital gain that would have resulted if the property had been sold at its fair maket value.
- How you figured your deduction if you chose to reduce your deduction for gifts of capital gain property.
- Any conditions attached to the gift.

Note: *If your total gifts of property are over $500, your records should contain additional information, and you must attach Form 8283 to your return. See Form 8283 and Publication 526 for details.*

In the example on page 20, the Browns wrote $60 on line 16a. These were the total cash contributions they gave to qualified charities in 1985. Since they did not give any noncash contributions, they wrote -0- on line 16b and $60 on line 16c. They divided $60 by 2 and wrote $30 on line 16d. This is the amount of their deduction for charitable contributions.

Line 18. Exemptions

You are entitled to a $1,040 deduction for each exemption you can take. Multiply $1,040 by the number of exemptions shown on line 5f, **OR** use the chart below. Write this amount on line 18.

Number of exemptions shown on line 5f—

	1	2	3	4	5	6	7	8	9	10
Write this amount on line 18—	1,040	2,080	3,120	4,160	5,200	6,240	7,280	8,320	9,360	10,400

If you are entitled to more than 10 exemptions, figure your deduction as follows. Add the amount shown in the column for 10 exemptions to the amount shown in the column that would total the number of exemptions you are taking. For example, if you are entitled to 12 exemptions, add the amount shown for 10 exemptions (10,400) to the amount shown for 2 exemptions (2,080). Your deduction would be 12,480 (10,400 plus 2,080).

Line 19. Taxable income

Subtract line 18 from line 17. This is your taxable income. Your tax is figured on this amount.

IRS will figure your tax and your earned income credit for you

If you want, we will figure your tax for you. If it turns out that you have paid too much tax, we will send you a refund. If you did not pay enough tax, we'll send you a bill. We won't charge you interest or a late payment penalty if you pay within 30 days of the notice date or by the due date for filing your return, whichever is later.

To have IRS figure your tax for you—

1. Fill in the parts of the return through line 19 that apply to you.
2. If you file a joint return, use the space in the margin to the left of line 19 to show your own taxable income and that of your spouse.
3. Complete lines 21a, 21b, and 24a if they apply to you. If you received any **advance earned income credit** (EIC) payments, in the space to the left of line 23 entry space, write "AEIC" and show the amount of the payment. Your Form(s) W-2 will show these payments.
4. Attach the first copy or Copy B of all your W-2 forms.
5. Complete and attach Schedule 1 of Form 1040A, if required.
6. Sign and date your return (both spouses must sign a joint return) and show your occupation.
7. Mail your return by April 15, 1986.

Earned income credit. See line 24b instructions on page 26 to see if you can take the earned income credit. If you can take the credit, we can figure it for you too. If you don't have to file a return, but are filing only to take the earned income credit, follow all of the above instructions.

Step 7
Figuring your tax, credits, and payments

If You Want IRS to Figure Your Tax, See Page 22 of the Instructions.

20	Find the tax on the amount on line 19. Use the tax table, pages 31–36.			20	276.00
21a	Credit for child and dependent care expenses. Complete and attach Schedule 1, Part II.	21a	90.00		
b	Partial credit for political contributions for which you have receipts. See page 24 of the instructions.	21b	.		
22	Add lines 21a and 21b. Write the total.			22	90.00
23	Subtract line 22 from line 20. Write the result. (If line 22 is more than line 20, write -0- on line 23.) This is your **total tax**. "AEIC"		58.00	▶ 23	244.00
24a	Total Federal income tax withheld. This should be shown in Box 9 of your W-2 form(s). (If line 6 is more than $39,600, see page 25 of the instructions.)	24a	379.00		
b	Earned income credit, from the worksheet on page 27 of the instructions. See page 26 of the instructions.	24b	223.00		
25	Add lines 24a and 24b. Write the total. These are your **total payments**.			▶ 25	602.00

Line 20. Figuring your income tax

Find your tax in the tax table on pages 31-36.

Note: *The tax in the table has been figured to give you the benefit of the zero bracket amount and it has been adjusted so that inflation will not increase your tax.*

Line 21a. Credit for child and dependent care expenses

You may be able to take a credit against your tax if you paid someone to care for your child, or disabled spouse, or disabled dependent so that you (and your spouse if you were married) could work or look for work. The instructions that begin below explain:

- Who can qualify you for the credit,
- Who can take the credit,
- Which expenses qualify for the credit, and
- How to figure the credit.

Who can qualify you for the credit

If you worked or looked for work in 1985, you may be able to take a tax credit for expenses you paid for the care of **any one** of the following **qualifying persons:**

- Any person under age 15 whom you can claim as a dependent (but see **Children of divorced or separated parents,** below).
- Your disabled spouse who is not able to care for himself or herself.
- Any disabled person not able to care for himself or herself whom you can claim as a dependent (or could claim as a dependent except that the person had $1,040 or more of gross income).

Tax Tip: *If you are divorced or separated and you have a child, the rules that allow you to take the credit have changed for 1985.*

Children of divorced or separated parents. If you were divorced, legally separated, or lived apart from your spouse during the last 6 months of 1985, your child is a qualifying person if you had custody of the child for a longer time during 1985 than the other parent. The child does not have to be your dependent. If the child is not your dependent, he or she must meet **all** of the following tests:

The child—

1. Received over half of his or her support from both parents, and
2. Was in the custody of one or both parents for more than half of 1985, and
3. Was under 15, or was disabled and unable to care for himself or herself, and
4. Is not your dependent because the child's other parent claims the child's exemption under the rules explained on page 12 for **Children of divorced or separated parents**.

Who can take the credit

To be eligible to take the credit, **all** of the following must apply:

1. You paid for the care so you (and your spouse if you were married) could work or look for work (but see **Spouse who is a full-time student or is disabled**, on page 24).
2. The qualifying person lived in your home.
3. You (and your spouse if you were married) paid more than half the cost of keeping up your home. (See **How To Use Tele-Tax** (*topic no. 306*) on page 39 or **Publication 503**, Child and Dependent Care Credit, and Employment Taxes for Household Employers, for an explanation of what costs are included.)
4. You must file a joint return if you were married unless—

either you were legally separated,

or you lived apart from your spouse during the last 6 months of the year. If this situation applied, the qualifying person must have lived with you in your home more than 6 months in 1985, and you must have provided more than half the cost of keeping up your home.

5. You paid someone, other than your spouse or a person whom you can claim as a dependent, to care for the qualifying person.

Note: *If the person you paid to provide the care is your child, he or she must be at least age 19 by the end of the year.*

Which expenses qualify for the credit

You can count only those expenses that are for the qualifying person's well-being and protection while you work or look for work. These include:

- Household services needed for the care of the qualifying person as well as to run the home, and
- Expenses for the care of the qualifying person.

Generally, you cannot include amounts paid for food or schooling. However, if these items are included as part of the total care, and they are incident to and cannot be separated from the total cost, you can include the total cost. You may not include any part of the cost of schooling for a child in the first grade or above.

Tax Tip: *Some disabled spouse and dependent care expenses may qualify as medical expenses if you itemize deductions. However, you must use Form 1040 to claim these expenses as itemized deductions. See* ***Publication 503*** *for details.*

Note: *Generally, if you paid cash wages of $50 or more in a calendar quarter for household services performed in your home, you must file an employment tax return. Get* ***Form 942*** *for details.*

Line 21a.
Credit for child and dependent care expenses (continued)

Care provided outside the home. You can include the cost of care provided outside your home for—

either your dependent who is under age 15,
or any other qualifying person who regularly spends at least 8 hours each day in your household.

If the care of the qualifying person is provided by a dependent care center, the center must meet all applicable state and local regulations. See Publication 503 for the definition of a "dependent care center."

How to figure the credit

We have provided specific instructions below for some of the lines on Schedule 1 (Form 1040A), Part II. Those lines that do not appear below are self-explanatory.

Line 2. Write on line 2 the amount of qualified expenses you incurred and actually paid in 1985. Do not include amounts paid or incurred by your employer if those amounts are excluded from your income.

Note: *If you had qualified expenses in 1984 that you did not pay until 1985, you may be able to increase the amount of credit you can take in 1985; however, you must complete and attach **Form 2441** to Form 1040. You may not use Form 1040A.*

The amount of your qualified expenses on line 2 **cannot** be more than—

either $2,400 if you paid for the care of one qualifying person in 1985,
or $4,800 if you paid for the care of two or more qualifying persons in 1985.

Line 3. Use line 3 to figure your earned income. The amount you use to figure the credit **cannot** be more than—

either your earned income if you were unmarried at the end of 1985;
or if you are married filing a joint return, the **smaller** of:

1. your earned income, or
2. your spouse's earned income.

Earned income for this purpose generally means wages, salaries, tips, and other employee compensation. See Publication 503 for more details.

Spouse who is a full-time student or is disabled. If your spouse was a full-time student or was disabled in 1985, figure your spouse's earned income on a monthly basis to determine your spouse's earned income for the year. For each month that your spouse was disabled or a full-time student, your spouse is considered to have worked and earned income of not less than $200 a month ($400 a month if more than one qualifying person was cared for in 1985). For any month that your spouse was not disabled or a full-time student, use actual earned income if your spouse worked during the month.

Note: *To be a full-time student, you must be enrolled in school for the number of hours or classes that the school considers full time. You must also have been enrolled for at least 5 months in 1985.*

**Line 21b.
Partial credit for political contributions for which you have receipts**

You can take a credit for part of what you gave in 1985 to help pay the campaign expenses of candidates for public office and to political committees and newsletter funds of candidates and elected public officials.

Note: *You cannot deduct political contributions as a charitable contribution on line 16 of Form 1040A.*

Married couples filing a joint return:

- If you gave $200 or more, you can take a credit for $100.
- If you gave less than $200, you can take a credit for one-half of what you gave.

All other filing statuses:

- If you gave $100 or more, you can take a credit for $50.
- If you gave less than $100, you can take a credit for one-half of what you gave.

Note: *If you checked "Yes" for the Presidential Election Campaign Fund, do NOT include that $1 (or $2) on line 21b as a political contribution.*

Line 23.
Total tax

Subtract the amount on line 22 from the amount on line 20. Write the result. If the amount on line 22 is more than the amount on line 20, write -0- on line 23.

Advance earned income credit (EIC) payments. If you received advance EIC payments in 1985, include these payments, as shown on Form(s) W-2, in the total on line 23. In the space to the left of this total, write "AEIC" and show the amount of the payment.

Line 24a.
Total Federal income tax withheld

On line 24a write the total amount of **Federal income tax withheld** during 1985. This should be shown in Box 9 of your 1985 Form(s) W-2.

If you received a Form 1099 showing income tax withheld ("backup withholding") on dividends or interest income for 1985, include the amount withheld in the total on line 24a. In the space to the left of this total, write "Form 1099."

Excess social security taxes withheld. If you had more than one employer for 1985 and your total wages were over $39,600, your employers may have withheld too much social security tax. If so, you can add the excess amount to your income tax withheld. Use the worksheet below to figure any excess social security taxes.

Excess railroad retirement taxes (RRTA) withheld. For 1985 no more than $3,831.30 in RRTA tax should have been withheld from your pay. If any one railroad employer withheld more than that amount, you must ask that employer to refund the excess to you. You cannot claim it on your return.

Do not use the worksheet below if:

either you had more than one railroad employer and you paid more than $3,831.30 in RRTA tax in 1985,

or you had both RRTA tax and social security tax withheld from your wages in 1985 and the total withheld was more than $2,791.80.

If either of the above apply to you, see **Publication 505**, Tax Withholding and Estimated Tax, to figure the amount of any excess RRTA or social security taxes withheld.

Worksheet to figure excess social security taxes (keep for your records)

Caution: *If you were a U.S. Government employee who paid ONLY the 1.35% hospital insurance benefits (Medicare) tax on your government wages,* ***do not*** *include on line A of the worksheet below the Medicare tax withheld from your government wages. See* ***Excess hospital insurance benefits tax****, on this page.*

Note: *If you are filing a joint return, you must figure excess social security tax withholding separately for each spouse. Do NOT combine amounts of both husband and wife.*

Employer		Social security tax withheld (Do not enter more than $2,791.80 for each employer.)
A.	$	.
	+	.
	+	.
B. Add amounts withheld	=	.
C. Social security tax limit	—	2,791.80
D. Subtract line C from line B, and write the result here. Also add this amount to the Federal income tax withheld on line 24a (line 8 of Form 1040EZ). Write "Excess SST" and show the amount in the space to the left of line 24a (line 8 of Form 1040EZ).	=	.

Note: *If any one employer withheld more than $2,791.80 in social security taxes, you must ask your employer to refund the excess to you. You cannot claim it on your return.*

Excess hospital insurance benefits tax. If you were a U.S. Government employee whose wages in 1985 were subject ONLY to the 1.35% hospital insurance benefits (Medicare) tax and you also had another job that was subject to social security tax or RRTA tax, you may have paid too much Medicare tax. To get a credit on the excess, your total government wages plus your other wages subject to social security tax or RRTA tax must be more than $39,600. You must use Form 1040 with **Form 4469** attached to it to claim the credit.

Line 24b. Earned income credit

This is a special credit that can help some people who have a child and have income under $11,000. The credit can be as much as $550.

*To qualify for the credit, **all** of the following must apply:*

1. You had earned income (explained below) in 1985 of less than $11,000, and
2. The amount on line 15 of Form 1040A is less than $11,000, and
3. You have a child who lived with you in your principal home for more than half the year during 1985 (this home must have been in the United States), and
4. Your filing status is **either** married filing joint **or** head of household. In addition, special rules apply to each of these two filing statuses.

Note: *If your child was born, or died, in 1985 and your home was the child's home for the part of 1985 that your child was alive, your child is considered to have lived with you for more than 6 months.*

***Tax Tip:** If you can take the earned income credit, you can subtract it from tax you owe or get a refund even if you had no tax withheld from your pay.*

Married filing joint. Your child must be claimed as your dependent on line 5c of Form 1040A. **Exception:** If your spouse is not your child's parent and the child's other parent claimed him or her as a dependent under the rules for **Children of divorced or separated parents** explained on page 12, you can take the credit if you meet all of the other conditions listed above. If you can take the credit because of this exception, you must enter your child's name in the space to the left of line 24b entry space. For this purpose, your "child" means:

- Your son or daughter.
- Your stepchild, adopted child, a child placed with you by an authorized placement agency for adoption by you, or a foster child (any other child, such as your grandchild, whom you cared for as your own child for the whole year).

Head of household. If your child is **unmarried,** this child does not have to be your dependent. But you must write that child's name on line 4 of your return if the child is not your dependent.

If your child is **married**, this child must be claimed as your dependent on line 5c of Form 1040A. **Exception:** If this child's other parent claimed him or her as a dependent under the rules for **Children of divorced or separated parents** explained on page 12, you can take the credit if you meet all of the conditions listed above. If you can take the credit because of this exception, you must enter your child's name in the space to the left of line 24b entry space. For this purpose, your "child" means:

- Your son or daughter.
- Your stepchild, adopted child, or a descendant of your son, daughter, or adopted child.

Note: *You MUST file a return if you get advance EIC payments. You must include the amount of these payments in the total on line 23. See line 23 instructions for more details.*

Earned income includes:	Earned income does not include:
• Wages, salaries, tips, etc.	• Interest and dividends
• Anything else of value (money, goods, services) that you get from your employer for your services even if it is not taxable (such as housing allowance or rental value of a parsonage for clergy members and meals and lodging for employees)	• Social security and tier 1 railroad retirement benefits
	• Welfare benefits
	• Nondisability pensions
	• Veterans' benefits
	• Workmen's compensation
	• Unemployment compensation

***Tax Tip:** For 1985, the amount of this credit has increased and the new rules may allow you to take the credit in 1985, even if you could not take it in 1984.*

If you qualify for the credit, use the worksheet on page 27 to figure it. Otherwise, write -0- on line 24b and go on to line 25.

Here is a sample worksheet showing how the Browns figure their credit.

SAMPLE

A. Write the amount from Form 1040A, line 6. Also include other earned income whether taxable or not. ***Note:** If line 6 is $11,000 or more, stop here. You cannot take the credit.*	A.	9,080.00
B. Write the amount from Form 1040A, line 15. ***Note:** If line 15 is $11,000 or more, stop here. You cannot take the credit.*	B.	9,180.00
C. If line B is **$6,500 or less,** use line A to find the credit in the table on page 37. Write the amount here and on Form 1040A, line 24b.	C.	.
D. If line B is **more than $6,500:**		
1. First, use line A to find the credit in the table on page 37. Write the amount here.	→ 1.	235.00
2. Then, use line B to find the credit in the table. Write that amount here.	→ 2.	223.00
3. Compare lines 1 and 2 above. Write the smaller of the two amounts here. Also write this amount on Form 1040A, line 24b.	D.	223.00

**Line 24b.
Earned
income credit
(continued)**

Earned income credit worksheet (keep for your records)

Note: *If you have not already done so, please read the instructions for line 24b that begin on page 26 to see whether you qualify for the credit.*

If you checked filing status Box 1 or 3, you cannot take the credit. Do not complete this worksheet.

A. Write the amount from Form 1040A, line 6. Also include other earned income whether taxable or not. ***Note:*** *If line 6 is $11,000 or more, stop here. You cannot take the credit.* A. .

B. Write the amount from Form 1040A, line 15. ***Note:*** *If line 15 is $11,000 or more, stop here. You cannot take the credit.* B. .

C. If line B is **$6,500 or less,** use line A to find the credit in the table on page 37. Write the amount here and on Form 1040A, line 24b. C. .

D. If line B is **more than $6,500:**

1. First, use line A to find the credit in the table on page 37. Write the amount here. → 1. ________ .
2. Then, use line B to find the credit in the table. Write that amount here. → 2. ________ .
3. Compare lines 1 and 2 above. Write the smaller of the two amounts here. Also write this amount on Form 1040A, line 24b. D. .

**Line 25.
Total payments**

Add lines 24a and 24b and write the total on line 25.

Extensions of time to file. If you filed **Form 4868** to get an automatic extension of time to file Form 1040A, include in the total on line 25 the amount of any payment you made with Form 4868. In the space to the left of line 25 entry space, write "Form 4868" and show the amount paid. Also include any amount paid with **Form 2688** that you filed to request an additional extension.

Step 8
Figuring your refund or amount you owe

26	If line 25 is larger than line 23, subtract line 23 from line 25. Write the result. This is the **amount of your refund.**	26	358.00
27	If line 23 is larger than line 25, subtract line 25 from line 23. Write the result. This is the **amount you owe.** Attach check or money order for full amount payable to "Internal Revenue Service." Write your social security number and "1985 Form 1040A" on it.	27	.

**Line 26.
Refund**

If you had more tax withheld than you owe, the amount on line 25 will be larger than the amount on line 23. Subtract line 23 from line 25 and write your answer on line 26—this is the amount of your refund. If line 26 is less than $1, we will send the refund only if you request it when you file the return.

If your refund is large, see your payroll office about having less tax withheld from your pay. Ask about filling out a new **Form W-4.**

**Line 27.
Amount you owe**

If you did not have enough tax withheld, the amount on line 23 will be larger than the amount on line 25. Subtract line 25 from line 23 and write your answer on line 27—this is the amount you still owe IRS. If line 27 is less than $1, you do not have to pay it.

Pay the full amount by check or money order, payable to the "Internal Revenue Service." On your payment write your social security number and "1985 Form 1040A," and attach the payment to your return.

Penalty for not paying enough tax during the year. There is a penalty for not paying enough tax during the year. You may have to pay a penalty if:

- The amount you owe IRS (line 27) is $500 or more, and
- The amount of Federal income tax withheld (line 24a) is less than 80% of—the amount of your total tax (line 23) minus your earned income credit (line 24b).

If you owe a penalty, you must file Form 1040 and attach **Form 2210,** Underpayment of Estimated Tax by Individuals, to it. However, you may be able to avoid the penalty under certain conditions. See Form 2210 and **Publication 505,** Tax Withholding and Estimated Tax, for details.

Step 9
Sign your return

***Reminder:** Be sure to attach the first copy or Copy B of your W-2 form(s) to your return.*

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Your signature x Jon T Brown	Date 2/15/86	Your occupation Clerk
Spouse's signature (if joint return, both must sign) x Lisa Brown	Date 2/15/86	Spouse's occupation Sales
Paid preparer's signature x	Date	Preparer's social security no.
Firm's name (or yours, if self-employed)		Employer identification no.
Address and ZIP code		Check if self-employed ☐

Form 1040A or Form 1040EZ is not considered a return unless you sign it. **Your spouse** must also sign if you are filing a joint return on Form 1040A. Be sure to date your return and show your occupation in the space provided.

Tax return preparers

Paid preparers must sign your return. Generally, anyone you pay to prepare your return must sign it. Someone who prepares it for you but does not charge you should not sign. A preparer who must sign your return must sign it by hand in the space provided (signature stamps or labels cannot be used), and give you a copy of the return for your records. Paid preparers of Form 1040EZ must sign the return and provide all other required information (in their own format) at the bottom of the form below the area for the taxpayer's signature.

Note: *Tax return preparers should see* ***Publication 1045,*** *Information and Order Blanks for Preparers of Federal Income Tax Returns, for details on their responsibilities as paid tax return preparers.*

Filing dates, penalties, and interest

If you do not file your return by **April 15, 1986,** you may have to pay a penalty.

Filing late. You can avoid penalties for late filing by sending in your return by the due date. The penalty for filing late is 5% of the amount due for each month, or part of a month, the return is late. The penalty cannot be more than 25% of your tax due. We will charge you interest on the penalty from the due date of the return. If you have a reasonable explanation for filing late, you might not have to pay the penalty, but you must attach the explanation to your return.

Minimum penalty for extended failure to file. If you fail to file your return within 60 days of the due date (with extensions), the penalty will not be less than $100 or the amount of any additional tax you owe, whichever is smaller.

Paying tax late. The penalty is 1/2 of 1% of the unpaid amount for each month, or part of a month, the tax is not paid. The penalty cannot be more than 25% of the unpaid amount. The penalty applies to any unpaid tax on the return and also applies to any additional tax shown on a bill not paid within 10 days of the date of the bill.

Other penalties. There are also other penalties that can be imposed for negligence, substantial underpayment of tax, filing a frivolous return, failure to give your social security number to certain payers, and fraud. See **Publication 17** for details.

Penalty for frivolous return. In addition to any other penalties, the law imposes a penalty of $500 for filing a frivolous return. A frivolous return is one which does not contain information needed to figure the correct tax or shows a substantially incorrect tax, because you take a frivolous position or desire to delay or interfere with the tax laws. This includes any alteration or striking out of the preprinted language above the space provided for your signature.

Interest. We will charge you interest on taxes not paid by their due date.

Extension of time to file. If you need more time to file, you can get an automatic four-month extension by filing **Form 4868,** Application for Automatic Extension of Time To File U.S. Individual Income Tax Return, by April 15, 1986. If you make a payment with Form 4868, see line 25 instructions for more information.

Section 3— General Information

This section contains general information about items such as how to file a return for a deceased taxpayer, how long to keep your tax records, and how to file an amended return if you need to change your return.

Corresponding with IRS

Be sure to include your social security number in any correspondence with the IRS.

Address change

If you move after you file your return and you are expecting a refund, you should notify the post office serving your old address. Also notify the IRS service center where you filed your return of your address change. This will help to forward your check to your new address as soon as possible.

Voluntary contributions to reduce the public debt

You may make voluntary contributions to reduce the public debt. Subject to the limitations on charitable contributions, you can deduct this contribution on your 1986 tax return. If you wish to contribute, enclose a **separate** check in your tax return envelope made payable to "Bureau of the Public Debt." Please keep this contribution **separate** from any amount payable on your tax return.

Note: *If you owe an amount on your tax return, make a separate check for the amount you owe payable to "Internal Revenue Service."*

Death of taxpayer

If the taxpayer died before filing a return for 1985, the taxpayer's spouse or personal representative may have to file a return and sign for the person who died. A personal representative can be an executor, administrator, or anyone who is in charge of the deceased person's property. If the taxpayer did not have to file a return but had tax withheld, a return must be filed to get a refund.

The person who files the return should write **"DECEASED"** across the top of the return. Also write "deceased" after the deceased taxpayer's name and show the date of death in the name and address space at the top of the return.

If your spouse died in 1985 and you did not remarry in 1985, or if your spouse died in 1986 before filing a return for 1985, you can file a joint return. A joint return should show your spouse's 1985 income before death and your income for all of 1985. Write "Filing as surviving spouse" in the area where you sign the return. If someone else is the personal representative, he or she must also sign.

If you are claiming a refund as a surviving spouse filing a joint return with the decedent and you follow the above instructions, no other form is needed to have the refund issued to you. However, all other filers requesting a refund due a deceased taxpayer must file **Form 1310,** Statement of Person Claiming Refund Due a Deceased Taxpayer, to claim the refund.

For more details, see **How To Use Tele-Tax** (*topic no. 128*) on page 39 or **Publication 559,** Tax Information for Survivors, Executors, and Administrators.

How long to keep your tax records

Keep records of all items appearing on your tax return until the statute of limitations runs out for the return. Usually this is 3 years from the date the return was due or filed, or 2 years from the date the tax was paid, whichever is later. Also keep copies of your filed tax returns as part of your records. You should keep some records longer. For example, keep property records (including those on your own home) as long as they are needed to figure the basis of the original or replacement property.

For more details, get **Publication 552,** Recordkeeping for Individuals and a List of Tax Publications.

How to get copies of your tax returns

If you need a copy of your tax return or tax account information, use **Form 4506,** Request for Copy of Tax Form or Income Tax Account Information. The charge for a copy of a return is $4.25. The charge for tax account information is $2.25.

How to amend your tax return

If, after you file your income tax return, you become aware of any changes you must make to income, deductions, or credits, file **Form 1040X,** Amended U.S. Individual Income Tax Return, to change the return you already filed.

If your return is changed for any reason (for example, as a result of an audit of your return by IRS), it may affect your state income tax return. Contact your state tax agency for more information.

Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE)

Free help is available in most communities to lower-income, elderly, handicapped, and non-English-speaking individuals in preparing Form 1040EZ, Form 1040A, and the basic Form 1040. Call the toll-free telephone number for your area for the location of the volunteer assistance site near you.

Note: *If you received a Federal Income Tax Forms Package in the mail, be sure to take it with you to the assistance site.*

Unresolved tax problems

IRS has a Problem Resolution Program for taxpayers who have been unable to resolve their problems with IRS. If you have a tax problem you have been unable to resolve through normal channels, write to your local IRS District Director or call your local IRS office and ask for Problem Resolution assistance.

The Problem Resolution Office will take responsibility for your problem and ensure that it receives proper attention. Although this office cannot change the tax law or technical decisions, it can often clear up misunderstandings that resulted from previous contacts.

Substitute tax forms

You may not use your own version of a tax form unless it meets the requirements explained in **Publication 1167** for acceptable privately designed and printed substitute tax forms. You can order the publication by writing to: Forms Distribution Center, P.O. Box 25866, Richmond, VA 23260.

Income tax withholding for 1986

If the amount due IRS on line 27 or the refund IRS owes you on line 26 is large, see your payroll office. Ask about filling out a new **Form W-4** to change the amount of tax to be withheld from your pay. For example, working married couples and persons with two or more jobs often need to have more tax withheld to avoid owing a large payment when the return is filed. You may also owe more tax because you have other income on which there is no withholding.

If you go back to work after a period of unemployment, there are methods which could reduce your withholding. For details, see your employer or get **Publication 505**.

Estimated tax payments

In general, you do not have to make estimated tax payments if you expect that your 1986 tax return will show a tax refund OR a tax balance due IRS of less than $500. However, if you make estimated tax payments for 1986, you must use Form 1040 to claim the payments you made. Please see Publication 505 for more details.

Where to file

Please use the addressed envelope that came with your return. If you do not have an addressed envelope, or if you moved during the year, mail your return to the **Internal Revenue Service Center** for the place where you live. **No street address is needed.**

Alabama—Atlanta, GA 31101
Alaska—Ogden, UT 84201
Arizona—Ogden, UT 84201
Arkansas—Memphis, TN 37501
California— *Counties of— Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo, and Yuba—*
  Ogden, UT 84201
All other Counties—
  Fresno, CA 93888
Colorado—Ogden, UT 84201
Connecticut—Andover, MA 05501
Delaware—Philadelphia, PA 19255
District of Columbia—
  Philadelphia, PA 19255
Florida—Atlanta, GA 31101
Georgia—Atlanta, GA 31101
Hawaii—Fresno, CA 93888
Idaho—Ogden, UT 84201
Illinois—Kansas City, MO 64999
Indiana—Memphis, TN 37501
Iowa—Kansas City, MO 64999
Kansas—Austin, TX 73301
Kentucky—Cincinnati, OH 45999
Louisiana—Austin, TX 73301
Maine—Andover, MA 05501
Maryland—Philadelphia, PA 19255
Massachusetts—Andover, MA 05501
Michigan—Cincinnati, OH 45999
Minnesota—Andover, MA 05501
Mississippi—Atlanta, GA 31101
Missouri—Kansas City, MO 64999
Montana—Ogden, UT 84201
Nebraska—Ogden, UT 84201
Nevada—Ogden, UT 84201
New Hampshire—Andover, MA 05501
New Jersey—Holtsville, NY 00501
New Mexico—Austin, TX 73301
New York—*New York City and Counties of Nassau, Rockland, Suffolk, and Westchester—*
  Holtsville, NY 00501
All other Counties—
  Andover, MA 05501
North Carolina—Memphis, TN 37501
North Dakota—Ogden, UT 84201
Ohio—Cincinnati, OH 45999
Oklahoma—Austin, TX 73301
Oregon—Ogden, UT 84201
Pennsylvania—Philadelphia, PA 19255
Rhode Island—Andover, MA 05501
South Carolina—Atlanta, GA 31101
South Dakota—Ogden, UT 84201
Tennessee—Memphis, TN 37501
Texas—Austin, TX 73301
Utah—Ogden, UT 84201
Vermont—Andover, MA 05501
Virginia—Memphis, TN 37501
Washington—Ogden, UT 84201
West Virginia—Cincinnati, OH 45999
Wisconsin—Kansas City, MO 64999
Wyoming—Ogden, UT 84201
American Samoa—Philadelphia, PA 19255
Guam—Commissioner of Revenue and Taxation, Agana, GU 96910
Puerto Rico *(or if excluding income under section 933)—*
  Philadelphia, PA 19255
Virgin Islands: Nonpermanent resident— Philadelphia, PA 19255
Virgin Islands: Permanent resident—
  V.I. Bureau of Internal Revenue
  P.O. Box 3186
  St. Thomas, VI 00801
Foreign country: *U.S. citizens and those filing Form 2555 or Form 4563 (even if you have an A.P.O. or F.P.O. address)—*
  Philadelphia, PA 19255
A.P.O. or F.P.O. *address of:*
  Miami—Atlanta, GA 31101
  New York—Holtsville, NY 00501
  San Francisco—Fresno, CA 93888
  Seattle—Ogden, UT 84201

1985 Tax Table

Based on Taxable Income

For persons with taxable incomes of less than $50,000

Example: Mr. and Mrs. Green are filing a joint return. Their taxable income on line 19 of Form 1040A is $23,270. First, they find the $23,250-23,300 income line. Next, they find the column for married filing jointly and read down the column. The amount shown where the income line and filing status column meet is $3,094. This is the tax amount they must write on line 20 of Form 1040A.

At least	But less than	Single (and 1040EZ filers)	Married filing jointly	Married filing sepa-rately	Head of a house-hold
		Your tax is—			
23,200	23,250	3,963	3,083	4,885	3,666
23,250	23,300	3,976	③,094	4,901	3,678
23,300	23,350	3,989	3,105	4,918	3,690
23,350	23,400	4,002	3,116	4,934	3,702

If 1040A, line 19, OR 1040EZ, line 7 is—		And you are—			
At least	But less than	Single (and 1040EZ filers)	Married filing jointly	Married filing sepa-rately	Head of a house-hold
		Your tax is—			
$0	$1,775	$0	$0	$0	$0
1,775	1,800	0	0	2	0
1,800	1,825	0	0	5	0
1,825	1,850	0	0	7	0
1,850	1,875	0	0	10	0
1,875	1,900	0	0	13	0
1,900	1,925	0	0	16	0
1,925	1,950	0	0	18	0
1,950	1,975	0	0	21	0
1,975	2,000	0	0	24	0
2,000					
2,000	2,025	0	0	27	0
2,025	2,050	0	0	29	0
2,050	2,075	0	0	32	0
2,075	2,100	0	0	35	0
2,100	2,125	0	0	38	0
2,125	2,150	0	0	40	0
2,150	2,175	0	0	43	0
2,175	2,200	0	0	46	0
2,200	2,225	0	0	49	0
2,225	2,250	0	0	51	0
2,250	2,275	0	0	54	0
2,275	2,300	0	0	57	0
2,300	2,325	0	0	60	0
2,325	2,350	0	0	62	0
2,350	2,375	0	0	65	0
2,375	2,400	0	0	68	0
2,400	2,425	2	0	71	2
2,425	2,450	5	0	73	5
2,450	2,475	8	0	76	8
2,475	2,500	11	0	79	11
2,500	2,525	13	0	82	13
2,525	2,550	16	0	84	16
2,550	2,575	19	0	87	19
2,575	2,600	22	0	90	22
2,600	2,625	24	0	93	24
2,625	2,650	27	0	95	27
2,650	2,675	30	0	98	30
2,675	2,700	33	0	101	33
2,700	2,725	35	0	104	35
2,725	2,750	38	0	106	38
2,750	2,775	41	0	109	41
2,775	2,800	44	0	112	44
2,800	2,825	46	0	115	46
2,825	2,850	49	0	117	49
2,850	2,875	52	0	120	52
2,875	2,900	55	0	123	55
2,900	2,925	57	0	126	57
2,925	2,950	60	0	129	60
2,950	2,975	63	0	132	63
2,975	3,000	66	0	135	66
3,000					
3,000	3,050	70	0	140	70
3,050	3,100	75	0	146	75
3,100	3,150	81	0	152	81
3,150	3,200	86	0	158	86
3,200	3,250	92	0	164	92
3,250	3,300	97	0	170	97
3,300	3,350	103	0	176	103
3,350	3,400	108	0	182	108
3,400	3,450	114	0	188	114
3,450	3,500	119	0	194	119
3,500	3,550	125	0	200	125
3,550	3,600	131	4	206	130
3,600	3,650	137	9	212	136
3,650	3,700	143	15	218	141
3,700	3,750	149	20	224	147
3,750	3,800	155	26	230	152
3,800	3,850	161	31	236	158
3,850	3,900	167	37	242	163
3,900	3,950	173	42	248	169
3,950	4,000	179	48	254	174
4,000					
4,000	4,050	185	53	261	180
4,050	4,100	191	59	268	185
4,100	4,150	197	64	275	191
4,150	4,200	203	70	282	196
4,200	4,250	209	75	289	202
4,250	4,300	215	81	296	207
4,300	4,350	221	86	303	213
4,350	4,400	227	92	310	218
4,400	4,450	233	97	317	224
4,450	4,500	239	103	324	229
4,500	4,550	245	108	331	235
4,550	4,600	251	114	338	240
4,600	4,650	258	119	345	246
4,650	4,700	265	125	352	252
4,700	4,750	272	130	359	258
4,750	4,800	279	136	366	264
4,800	4,850	286	141	373	270
4,850	4,900	293	147	380	276
4,900	4,950	300	152	387	282
4,950	5,000	307	158	394	288

Continued on next page

1985 Tax Table—*Continued*

If 1040A, line 19, OR 1040EZ, line 7 is—		And you are—			
At least	But less than	Single (and 1040EZ filers)	Married filing jointly	Married filing separately	Head of a household
		Your tax is—			
5,000					
5,000	5,050	314	163	401	294
5,050	5,100	321	169	408	300
5,100	5,150	328	174	415	306
5,150	5,200	335	180	422	312
5,200	5,250	342	185	429	318
5,250	5,300	349	191	436	324
5,300	5,350	356	196	443	330
5,350	5,400	363	202	450	336
5,400	5,450	370	207	457	342
5,450	5,500	377	213	464	348
5,500	5,550	384	218	471	354
5,550	5,600	391	224	478	360
5,600	5,650	398	229	485	366
5,650	5,700	405	235	492	372
5,700	5,750	412	240	499	378
5,750	5,800	419	246	506	384
5,800	5,850	426	252	513	390
5,850	5,900	433	258	520	396
5,900	5,950	440	264	527	402
5,950	6,000	447	270	534	408
6,000					
6,000	6,050	454	276	541	414
6,050	6,100	461	282	548	420
6,100	6,150	468	288	555	426
6,150	6,200	475	294	562	432
6,200	6,250	482	300	570	438
6,250	6,300	489	306	578	444
6,300	6,350	496	312	586	450
6,350	6,400	503	318	594	456
6,400	6,450	510	324	602	462
6,450	6,500	517	330	610	468
6,500	6,550	524	336	618	474
6,550	6,600	531	342	626	480
6,600	6,650	538	348	634	486
6,650	6,700	545	354	642	492
6,700	6,750	552	360	650	498
6,750	6,800	559	366	658	505
6,800	6,850	566	372	666	512
6,850	6,900	574	378	674	519
6,900	6,950	581	384	682	526
6,950	7,000	589	390	690	533
7,000					
7,000	7,050	596	396	698	540
7,050	7,100	604	402	706	547
7,100	7,150	611	408	714	554
7,150	7,200	619	414	722	561
7,200	7,250	626	420	730	568
7,250	7,300	634	426	738	575
7,300	7,350	641	432	746	582
7,350	7,400	649	438	754	589
7,400	7,450	656	444	762	596
7,450	7,500	664	450	770	603
7,500	7,550	671	456	778	610
7,550	7,600	679	462	786	617
7,600	7,650	686	468	794	624
7,650	7,700	694	474	802	631
7,700	7,750	701	480	810	638
7,750	7,800	709	486	818	645
7,800	7,850	716	492	826	652
7,850	7,900	724	498	834	659
7,900	7,950	731	505	842	666
7,950	8,000	739	512	850	673
8,000					
8,000	8,050	746	519	858	680
8,050	8,100	754	526	866	687
8,100	8,150	761	533	874	694
8,150	8,200	769	540	882	701
8,200	8,250	776	547	890	708
8,250	8,300	784	554	898	715
8,300	8,350	791	561	906	722
8,350	8,400	799	568	915	729
8,400	8,450	806	575	924	736
8,450	8,500	814	582	933	743
8,500	8,550	821	589	942	750
8,550	8,600	829	596	951	757
8,600	8,650	836	603	960	764
8,650	8,700	844	610	969	771
8,700	8,750	851	617	978	778
8,750	8,800	859	624	987	785
8,800	8,850	866	631	996	792
8,850	8,900	874	638	1,005	799
8,900	8,950	882	645	1,014	806
8,950	9,000	890	652	1,023	813
9,000					
9,000	9,050	898	659	1,032	820
9,050	9,100	906	666	1,041	827
9,100	9,150	914	673	1,050	836
9,150	9,200	922	680	1,059	844
9,200	9,250	930	687	1,068	853
9,250	9,300	938	694	1,077	861
9,300	9,350	946	701	1,086	870
9,350	9,400	954	708	1,095	878
9,400	9,450	962	715	1,104	887
9,450	9,500	970	722	1,113	895
9,500	9,550	978	729	1,122	904
9,550	9,600	986	736	1,131	912
9,600	9,650	994	743	1,140	921
9,650	9,700	1,002	750	1,149	929
9,700	9,750	1,010	757	1,158	938
9,750	9,800	1,018	764	1,167	946
9,800	9,850	1,026	771	1,176	955
9,850	9,900	1,034	778	1,185	963
9,900	9,950	1,042	785	1,194	972
9,950	10,000	1,050	792	1,203	980
10,000					
10,000	10,050	1,058	799	1,212	989
10,050	10,100	1,066	806	1,221	997
10,100	10,150	1,074	813	1,230	1,006
10,150	10,200	1,082	820	1,239	1,014
10,200	10,250	1,090	827	1,248	1,023
10,250	10,300	1,098	834	1,257	1,031
10,300	10,350	1,106	841	1,266	1,040
10,350	10,400	1,114	848	1,275	1,048
10,400	10,450	1,122	855	1,284	1,057
10,450	10,500	1,130	862	1,293	1,065
10,500	10,550	1,138	869	1,302	1,074
10,550	10,600	1,146	876	1,313	1,082
10,600	10,650	1,154	883	1,324	1,091
10,650	10,700	1,162	890	1,335	1,099
10,700	10,750	1,170	897	1,346	1,108
10,750	10,800	1,178	904	1,357	1,116
10,800	10,850	1,186	911	1,368	1,125
10,850	10,900	1,194	918	1,379	1,133
10,900	10,950	1,202	925	1,390	1,142
10,950	11,000	1,210	932	1,401	1,150
11,000					
11,000	11,050	1,218	939	1,412	1,159
11,050	11,100	1,226	946	1,423	1,167
11,100	11,150	1,234	953	1,434	1,176
11,150	11,200	1,242	960	1,445	1,184
11,200	11,250	1,250	967	1,456	1,193
11,250	11,300	1,259	974	1,467	1,201
11,300	11,350	1,268	981	1,478	1,210
11,350	11,400	1,277	988	1,489	1,218
11,400	11,450	1,286	995	1,500	1,227
11,450	11,500	1,295	1,002	1,511	1,235
11,500	11,550	1,304	1,009	1,522	1,244
11,550	11,600	1,313	1,016	1,533	1,252
11,600	11,650	1,322	1,023	1,544	1,261
11,650	11,700	1,331	1,030	1,555	1,269
11,700	11,750	1,340	1,037	1,566	1,278
11,750	11,800	1,349	1,044	1,577	1,286
11,800	11,850	1,358	1,051	1,588	1,295
11,850	11,900	1,367	1,058	1,599	1,303
11,900	11,950	1,376	1,065	1,610	1,312
11,950	12,000	1,385	1,072	1,621	1,320
12,000					
12,000	12,050	1,394	1,079	1,632	1,329
12,050	12,100	1,403	1,086	1,643	1,337
12,100	12,150	1,412	1,093	1,654	1,346
12,150	12,200	1,421	1,100	1,665	1,354
12,200	12,250	1,430	1,107	1,676	1,363
12,250	12,300	1,439	1,114	1,687	1,371
12,300	12,350	1,448	1,121	1,698	1,380
12,350	12,400	1,457	1,128	1,709	1,389
12,400	12,450	1,466	1,135	1,720	1,398
12,450	12,500	1,475	1,143	1,731	1,407
12,500	12,550	1,484	1,151	1,742	1,416
12,550	12,600	1,493	1,159	1,753	1,425
12,600	12,650	1,502	1,167	1,764	1,434
12,650	12,700	1,511	1,175	1,775	1,443
12,700	12,750	1,520	1,183	1,786	1,452
12,750	12,800	1,529	1,191	1,797	1,461
12,800	12,850	1,538	1,199	1,809	1,470
12,850	12,900	1,547	1,207	1,822	1,479
12,900	12,950	1,556	1,215	1,834	1,488
12,950	13,000	1,565	1,223	1,847	1,497
13,000					
13,000	13,050	1,574	1,231	1,859	1,506
13,050	13,100	1,583	1,239	1,872	1,515
13,100	13,150	1,592	1,247	1,884	1,524
13,150	13,200	1,601	1,255	1,897	1,533
13,200	13,250	1,610	1,263	1,909	1,542
13,250	13,300	1,619	1,271	1,922	1,551
13,300	13,350	1,628	1,279	1,934	1,560
13,350	13,400	1,637	1,287	1,947	1,569
13,400	13,450	1,646	1,295	1,959	1,578
13,450	13,500	1,656	1,303	1,972	1,587
13,500	13,550	1,666	1,311	1,984	1,596
13,550	13,600	1,676	1,319	1,997	1,605
13,600	13,650	1,686	1,327	2,009	1,614
13,650	13,700	1,696	1,335	2,022	1,623
13,700	13,750	1,706	1,343	2,034	1,632
13,750	13,800	1,716	1,351	2,047	1,641
13,800	13,850	1,726	1,359	2,059	1,650
13,850	13,900	1,736	1,367	2,072	1,659
13,900	13,950	1,746	1,375	2,084	1,668
13,950	14,000	1,756	1,383	2,097	1,677

Continued on next page

1985 Tax Table—*Continued*

If 1040A, line 19, OR 1040EZ, line 7 is—		And you are—			
At least	But less than	Single (and 1040EZ filers)	Married filing jointly	Married filing separately	Head of a household
		Your tax is—			
14,000					
14,000	14,050	1,766	1,391	2,109	1,686
14,050	14,100	1,776	1,399	2,122	1,695
14,100	14,150	1,786	1,407	2,134	1,704
14,150	14,200	1,796	1,415	2,147	1,713
14,200	14,250	1,806	1,423	2,159	1,722
14,250	14,300	1,816	1,431	2,172	1,731
14,300	14,350	1,826	1,439	2,184	1,740
14,350	14,400	1,836	1,447	2,197	1,749
14,400	14,450	1,846	1,455	2,209	1,758
14,450	14,500	1,856	1,463	2,222	1,767
14,500	14,550	1,866	1,471	2,234	1,776
14,550	14,600	1,876	1,479	2,247	1,785
14,600	14,650	1,886	1,487	2,259	1,794
14,650	14,700	1,896	1,495	2,272	1,803
14,700	14,750	1,906	1,503	2,284	1,812
14,750	14,800	1,916	1,511	2,297	1,821
14,800	14,850	1,926	1,519	2,309	1,830
14,850	14,900	1,936	1,527	2,322	1,839
14,900	14,950	1,946	1,535	2,334	1,848
14,950	15,000	1,956	1,543	2,347	1,857
15,000					
15,000	15,050	1,966	1,551	2,359	1,866
15,050	15,100	1,976	1,559	2,372	1,875
15,100	15,150	1,986	1,567	2,384	1,884
15,150	15,200	1,996	1,575	2,397	1,893
15,200	15,250	2,006	1,583	2,409	1,902
15,250	15,300	2,016	1,591	2,422	1,911
15,300	15,350	2,026	1,599	2,434	1,920
15,350	15,400	2,036	1,607	2,447	1,929
15,400	15,450	2,046	1,615	2,459	1,938
15,450	15,500	2,056	1,623	2,472	1,947
15,500	15,550	2,066	1,631	2,484	1,956
15,550	15,600	2,076	1,639	2,497	1,965
15,600	15,650	2,086	1,647	2,511	1,975
15,650	15,700	2,098	1,655	2,525	1,985
15,700	15,750	2,109	1,663	2,539	1,995
15,750	15,800	2,121	1,671	2,553	2,005
15,800	15,850	2,132	1,679	2,567	2,015
15,850	15,900	2,144	1,687	2,581	2,025
15,900	15,950	2,155	1,695	2,595	2,035
15,950	16,000	2,167	1,703	2,609	2,045
16,000					
16,000	16,050	2,178	1,711	2,623	2,055
16,050	16,100	2,190	1,719	2,637	2,065
16,100	16,150	2,201	1,727	2,651	2,075
16,150	16,200	2,213	1,735	2,665	2,085
16,200	16,250	2,224	1,743	2,679	2,095
16,250	16,300	2,236	1,751	2,693	2,105
16,300	16,350	2,247	1,759	2,707	2,115
16,350	16,400	2,259	1,767	2,721	2,125
16,400	16,450	2,270	1,775	2,735	2,135
16,450	16,500	2,282	1,783	2,749	2,145
16,500	16,550	2,293	1,791	2,763	2,155
16,550	16,600	2,305	1,799	2,777	2,165
16,600	16,650	2,316	1,807	2,791	2,175
16,650	16,700	2,328	1,816	2,805	2,185
16,700	16,750	2,339	1,825	2,819	2,195
16,750	16,800	2,351	1,834	2,833	2,205
16,800	16,850	2,362	1,843	2,847	2,215
16,850	16,900	2,374	1,852	2,861	2,225
16,900	16,950	2,385	1,861	2,875	2,235
16,950	17,000	2,397	1,870	2,889	2,245

If 1040A, line 19, OR 1040EZ, line 7 is—		And you are—			
At least	But less than	Single (and 1040EZ filers)	Married filing jointly	Married filing separately	Head of a household
		Your tax is—			
17,000					
17,000	17,050	2,408	1,879	2,903	2,255
17,050	17,100	2,420	1,888	2,917	2,265
17,100	17,150	2,431	1,897	2,931	2,275
17,150	17,200	2,443	1,906	2,945	2,285
17,200	17,250	2,454	1,915	2,959	2,295
17,250	17,300	2,466	1,924	2,973	2,305
17,300	17,350	2,477	1,933	2,987	2,315
17,350	17,400	2,489	1,942	3,001	2,325
17,400	17,450	2,500	1,951	3,015	2,335
17,450	17,500	2,512	1,960	3,029	2,345
17,500	17,550	2,523	1,969	3,043	2,355
17,550	17,600	2,535	1,978	3,057	2,365
17,600	17,650	2,546	1,987	3,071	2,375
17,650	17,700	2,558	1,996	3,085	2,385
17,700	17,750	2,569	2,005	3,099	2,395
17,750	17,800	2,581	2,014	3,113	2,405
17,800	17,850	2,592	2,023	3,127	2,415
17,850	17,900	2,604	2,032	3,141	2,425
17,900	17,950	2,615	2,041	3,155	2,435
17,950	18,000	2,627	2,050	3,169	2,445
18,000					
18,000	18,050	2,638	2,059	3,183	2,455
18,050	18,100	2,650	2,068	3,197	2,465
18,100	18,150	2,661	2,077	3,211	2,475
18,150	18,200	2,673	2,086	3,225	2,485
18,200	18,250	2,684	2,095	3,239	2,495
18,250	18,300	2,696	2,104	3,253	2,505
18,300	18,350	2,707	2,113	3,268	2,515
18,350	18,400	2,719	2,122	3,284	2,525
18,400	18,450	2,730	2,131	3,301	2,535
18,450	18,500	2,742	2,140	3,317	2,545
18,500	18,550	2,753	2,149	3,334	2,555
18,550	18,600	2,765	2,158	3,350	2,565
18,600	18,650	2,776	2,167	3,367	2,575
18,650	18,700	2,788	2,176	3,383	2,585
18,700	18,750	2,799	2,185	3,400	2,595
18,750	18,800	2,811	2,194	3,416	2,605
18,800	18,850	2,822	2,203	3,433	2,615
18,850	18,900	2,834	2,212	3,449	2,625
18,900	18,950	2,845	2,221	3,466	2,635
18,950	19,000	2,858	2,230	3,482	2,646
19,000					
19,000	19,050	2,871	2,239	3,499	2,658
19,050	19,100	2,884	2,248	3,515	2,670
19,100	19,150	2,897	2,257	3,532	2,682
19,150	19,200	2,910	2,266	3,548	2,694
19,200	19,250	2,923	2,275	3,565	2,706
19,250	19,300	2,936	2,284	3,581	2,718
19,300	19,350	2,949	2,293	3,598	2,730
19,350	19,400	2,962	2,302	3,614	2,742
19,400	19,450	2,975	2,311	3,631	2,754
19,450	19,500	2,988	2,320	3,647	2,766
19,500	19,550	3,001	2,329	3,664	2,778
19,550	19,600	3,014	2,338	3,680	2,790
19,600	19,650	3,027	2,347	3,697	2,802
19,650	19,700	3,040	2,356	3,713	2,814
19,700	19,750	3,053	2,365	3,730	2,826
19,750	19,800	3,066	2,374	3,746	2,838
19,800	19,850	3,079	2,383	3,763	2,850
19,850	19,900	3,092	2,392	3,779	2,862
19,900	19,950	3,105	2,401	3,796	2,874
19,950	20,000	3,118	2,410	3,812	2,886

If 1040A, line 19, OR 1040EZ, line 7 is—		And you are—			
At least	But less than	Single (and 1040EZ filers)	Married filing jointly	Married filing separately	Head of a household
		Your tax is—			
20,000					
20,000	20,050	3,131	2,419	3,829	2,898
20,050	20,100	3,144	2,428	3,845	2,910
20,100	20,150	3,157	2,437	3,862	2,922
20,150	20,200	3,170	2,446	3,878	2,934
20,200	20,250	3,183	2,455	3,895	2,946
20,250	20,300	3,196	2,464	3,911	2,958
20,300	20,350	3,209	2,473	3,928	2,970
20,350	20,400	3,222	2,482	3,944	2,982
20,400	20,450	3,235	2,491	3,961	2,994
20,450	20,500	3,248	2,500	3,977	3,006
20,500	20,550	3,261	2,509	3,994	3,018
20,550	20,600	3,274	2,518	4,010	3,030
20,600	20,650	3,287	2,527	4,027	3,042
20,650	20,700	3,300	2,536	4,043	3,054
20,700	20,750	3,313	2,545	4,060	3,066
20,750	20,800	3,326	2,554	4,076	3,078
20,800	20,850	3,339	2,563	4,093	3,090
20,850	20,900	3,352	2,572	4,109	3,102
20,900	20,950	3,365	2,581	4,126	3,114
20,950	21,000	3,378	2,590	4,142	3,126
21,000					
21,000	21,050	3,391	2,599	4,159	3,138
21,050	21,100	3,404	2,610	4,175	3,150
21,100	21,150	3,417	2,621	4,192	3,162
21,150	21,200	3,430	2,632	4,208	3,174
21,200	21,250	3,443	2,643	4,225	3,186
21,250	21,300	3,456	2,654	4,241	3,198
21,300	21,350	3,469	2,665	4,258	3,210
21,350	21,400	3,482	2,676	4,274	3,222
21,400	21,450	3,495	2,687	4,291	3,234
21,450	21,500	3,508	2,698	4,307	3,246
21,500	21,550	3,521	2,709	4,324	3,258
21,550	21,600	3,534	2,720	4,340	3,270
21,600	21,650	3,547	2,731	4,357	3,282
21,650	21,700	3,560	2,742	4,373	3,294
21,700	21,750	3,573	2,753	4,390	3,306
21,750	21,800	3,586	2,764	4,406	3,318
21,800	21,850	3,599	2,775	4,423	3,330
21,850	21,900	3,612	2,786	4,439	3,342
21,900	21,950	3,625	2,797	4,456	3,354
21,950	22,000	3,638	2,808	4,472	3,366
22,000					
22,000	22,050	3,651	2,819	4,489	3,378
22,050	22,100	3,664	2,830	4,505	3,390
22,100	22,150	3,677	2,841	4,522	3,402
22,150	22,200	3,690	2,852	4,538	3,414
22,200	22,250	3,703	2,863	4,555	3,426
22,250	22,300	3,716	2,874	4,571	3,438
22,300	22,350	3,729	2,885	4,588	3,450
22,350	22,400	3,742	2,896	4,604	3,462
22,400	22,450	3,755	2,907	4,621	3,474
22,450	22,500	3,768	2,918	4,637	3,486
22,500	22,550	3,781	2,929	4,654	3,498
22,550	22,600	3,794	2,940	4,670	3,510
22,600	22,650	3,807	2,951	4,687	3,522
22,650	22,700	3,820	2,962	4,703	3,534
22,700	22,750	3,833	2,973	4,720	3,546
22,750	22,800	3,846	2,984	4,736	3,558
22,800	22,850	3,859	2,995	4,753	3,570
22,850	22,900	3,872	3,006	4,769	3,582
22,900	22,950	3,885	3,017	4,786	3,594
22,950	23,000	3,898	3,028	4,802	3,606

Continued on next page

1985 Tax Table—*Continued*

If 1040A, line 19, OR 1040EZ, line 7 is—		And you are—			
At least	But less than	Single (and 1040EZ filers)	Married filing jointly	Married filing separately	Head of a household
		Your tax is—			
23,000					
23,000	**23,050**	3,911	3,039	4,819	3,618
23,050	**23,100**	3,924	3,050	4,835	3,630
23,100	**23,150**	3,937	3,061	4,852	3,642
23,150	**23,200**	3,950	3,072	4,868	3,654
23,200	**23,250**	3,963	3,083	4,885	3,666
23,250	**23,300**	3,976	3,094	4,901	3,678
23,300	**23,350**	3,989	3,105	4,918	3,690
23,350	**23,400**	4,002	3,116	4,934	3,702
23,400	**23,450**	4,015	3,127	4,951	3,714
23,450	**23,500**	4,028	3,138	4,967	3,726
23,500	**23,550**	4,041	3,149	4,984	3,738
23,550	**23,600**	4,054	3,160	5,000	3,750
23,600	**23,650**	4,067	3,171	5,017	3,762
23,650	**23,700**	4,080	3,182	5,033	3,774
23,700	**23,750**	4,093	3,193	5,050	3,786
23,750	**23,800**	4,106	3,204	5,066	3,798
23,800	**23,850**	4,119	3,215	5,083	3,810
23,850	**23,900**	4,132	3,226	5,101	3,822
23,900	**23,950**	4,145	3,237	5,120	3,834
23,950	**24,000**	4,158	3,248	5,139	3,846
24,000					
24,000	**24,050**	4,171	3,259	5,158	3,858
24,050	**24,100**	4,184	3,270	5,177	3,870
24,100	**24,150**	4,197	3,281	5,196	3,882
24,150	**24,200**	4,210	3,292	5,215	3,894
24,200	**24,250**	4,223	3,303	5,234	3,906
24,250	**24,300**	4,236	3,314	5,253	3,918
24,300	**24,350**	4,249	3,325	5,272	3,930
24,350	**24,400**	4,262	3,336	5,291	3,942
24,400	**24,450**	4,275	3,347	5,310	3,954
24,450	**24,500**	4,288	3,358	5,329	3,967
24,500	**24,550**	4,303	3,369	5,348	3,981
24,550	**24,600**	4,318	3,380	5,367	3,995
24,600	**24,650**	4,333	3,391	5,386	4,009
24,650	**24,700**	4,348	3,402	5,405	4,023
24,700	**24,750**	4,363	3,413	5,424	4,037
24,750	**24,800**	4,378	3,424	5,443	4,051
24,800	**24,850**	4,393	3,435	5,462	4,065
24,850	**24,900**	4,408	3,446	5,481	4,079
24,900	**24,950**	4,423	3,457	5,500	4,093
24,950	**25,000**	4,438	3,468	5,519	4,107
25,000					
25,000	**25,050**	4,453	3,479	5,538	4,121
25,050	**25,100**	4,468	3,490	5,557	4,135
25,100	**25,150**	4,483	3,501	5,576	4,149
25,150	**25,200**	4,498	3,512	5,595	4,163
25,200	**25,250**	4,513	3,523	5,614	4,177
25,250	**25,300**	4,528	3,534	5,633	4,191
25,300	**25,350**	4,543	3,545	5,652	4,205
25,350	**25,400**	4,558	3,556	5,671	4,219
25,400	**25,450**	4,573	3,567	5,690	4,233
25,450	**25,500**	4,588	3,578	5,709	4,247
25,500	**25,550**	4,603	3,589	5,728	4,261
25,550	**25,600**	4,618	3,600	5,747	4,275
25,600	**25,650**	4,633	3,612	5,766	4,289
25,650	**25,700**	4,648	3,624	5,785	4,303
25,700	**25,750**	4,663	3,637	5,804	4,317
25,750	**25,800**	4,678	3,649	5,823	4,331
25,800	**25,850**	4,693	3,662	5,842	4,345
25,850	**25,900**	4,708	3,674	5,861	4,359
25,900	**25,950**	4,723	3,687	5,880	4,373
25,950	**26,000**	4,738	3,699	5,899	4,387

If 1040A, line 19, OR 1040EZ, line 7 is—		And you are—			
At least	But less than	Single (and 1040EZ filers)	Married filing jointly	Married filing separately	Head of a household
		Your tax is—			
26,000					
26,000	**26,050**	4,753	3,712	5,918	4,401
26,050	**26,100**	4,768	3,724	5,937	4,415
26,100	**26,150**	4,783	3,737	5,956	4,429
26,150	**26,200**	4,798	3,749	5,975	4,443
26,200	**26,250**	4,813	3,762	5,994	4,457
26,250	**26,300**	4,828	3,774	6,013	4,471
26,300	**26,350**	4,843	3,787	6,032	4,485
26,350	**26,400**	4,858	3,799	6,051	4,499
26,400	**26,450**	4,873	3,812	6,070	4,513
26,450	**26,500**	4,888	3,824	6,089	4,527
26,500	**26,550**	4,903	3,837	6,108	4,541
26,550	**26,600**	4,918	3,849	6,127	4,555
26,600	**26,650**	4,933	3,862	6,146	4,569
26,650	**26,700**	4,948	3,874	6,165	4,583
26,700	**26,750**	4,963	3,887	6,184	4,597
26,750	**26,800**	4,978	3,899	6,203	4,611
26,800	**26,850**	4,993	3,912	6,222	4,625
26,850	**26,900**	5,008	3,924	6,241	4,639
26,900	**26,950**	5,023	3,937	6,260	4,653
26,950	**27,000**	5,038	3,949	6,279	4,667
27,000					
27,000	**27,050**	5,053	3,962	6,298	4,681
27,050	**27,100**	5,068	3,974	6,317	4,695
27,100	**27,150**	5,083	3,987	6,336	4,709
27,150	**27,200**	5,098	3,999	6,355	4,723
27,200	**27,250**	5,113	4,012	6,374	4,737
27,250	**27,300**	5,128	4,024	6,393	4,751
27,300	**27,350**	5,143	4,037	6,412	4,765
27,350	**27,400**	5,158	4,049	6,431	4,779
27,400	**27,450**	5,173	4,062	6,450	4,793
27,450	**27,500**	5,188	4,074	6,469	4,807
27,500	**27,550**	5,203	4,087	6,488	4,821
27,550	**27,600**	5,218	4,099	6,507	4,835
27,600	**27,650**	5,233	4,112	6,526	4,849
27,650	**27,700**	5,248	4,124	6,545	4,863
27,700	**27,750**	5,263	4,137	6,564	4,877
27,750	**27,800**	5,278	4,149	6,583	4,891
27,800	**27,850**	5,293	4,162	6,602	4,905
27,850	**27,900**	5,308	4,174	6,621	4,919
27,900	**27,950**	5,323	4,187	6,640	4,933
27,950	**28,000**	5,338	4,199	6,659	4,947
28,000					
28,000	**28,050**	5,353	4,212	6,678	4,961
28,050	**28,100**	5,368	4,224	6,697	4,975
28,100	**28,150**	5,383	4,237	6,716	4,989
28,150	**28,200**	5,398	4,249	6,735	5,003
28,200	**28,250**	5,413	4,262	6,754	5,017
28,250	**28,300**	5,428	4,274	6,773	5,031
28,300	**28,350**	5,443	4,287	6,792	5,045
28,350	**28,400**	5,458	4,299	6,811	5,059
28,400	**28,450**	5,473	4,312	6,830	5,073
28,450	**28,500**	5,488	4,324	6,849	5,087
28,500	**28,550**	5,503	4,337	6,868	5,101
28,550	**28,600**	5,518	4,349	6,887	5,115
28,600	**28,650**	5,533	4,362	6,906	5,129
28,650	**28,700**	5,548	4,374	6,925	5,143
28,700	**28,750**	5,563	4,387	6,944	5,157
28,750	**28,800**	5,578	4,399	6,963	5,171
28,800	**28,850**	5,593	4,412	6,982	5,185
28,850	**28,900**	5,608	4,424	7,001	5,199
28,900	**28,950**	5,623	4,437	7,020	5,213
28,950	**29,000**	5,638	4,449	7,039	5,227

If 1040A, line 19, OR 1040EZ, line 7 is—		And you are—			
At least	But less than	Single (and 1040EZ filers)	Married filing jointly	Married filing separately	Head of a household
		Your tax is—			
29,000					
29,000	**29,050**	5,653	4,462	7,058	5,241
29,050	**29,100**	5,668	4,474	7,077	5,255
29,100	**29,150**	5,683	4,487	7,096	5,269
29,150	**29,200**	5,698	4,499	7,115	5,283
29,200	**29,250**	5,713	4,512	7,134	5,297
29,250	**29,300**	5,728	4,524	7,153	5,311
29,300	**29,350**	5,743	4,537	7,172	5,325
29,350	**29,400**	5,758	4,549	7,191	5,339
29,400	**29,450**	5,773	4,562	7,210	5,353
29,450	**29,500**	5,788	4,574	7,229	5,367
29,500	**29,550**	5,803	4,587	7,248	5,381
29,550	**29,600**	5,818	4,599	7,267	5,395
29,600	**29,650**	5,833	4,612	7,286	5,409
29,650	**29,700**	5,848	4,624	7,305	5,423
29,700	**29,750**	5,863	4,637	7,324	5,437
29,750	**29,800**	5,878	4,649	7,343	5,451
29,800	**29,850**	5,893	4,662	7,362	5,465
29,850	**29,900**	5,908	4,674	7,381	5,479
29,900	**29,950**	5,923	4,687	7,400	5,493
29,950	**30,000**	5,938	4,699	7,419	5,507
30,000					
30,000	**30,050**	5,955	4,712	7,438	5,523
30,050	**30,100**	5,972	4,724	7,457	5,539
30,100	**30,150**	5,989	4,737	7,476	5,555
30,150	**30,200**	6,006	4,749	7,495	5,571
30,200	**30,250**	6,023	4,762	7,514	5,587
30,250	**30,300**	6,040	4,774	7,533	5,603
30,300	**30,350**	6,057	4,787	7,552	5,619
30,350	**30,400**	6,074	4,799	7,571	5,635
30,400	**30,450**	6,091	4,812	7,590	5,651
30,450	**30,500**	6,108	4,824	7,609	5,667
30,500	**30,550**	6,125	4,837	7,628	5,683
30,550	**30,600**	6,142	4,849	7,647	5,699
30,600	**30,650**	6,159	4,862	7,666	5,715
30,650	**30,700**	6,176	4,874	7,685	5,731
30,700	**30,750**	6,193	4,887	7,704	5,747
30,750	**30,800**	6,210	4,899	7,723	5,763
30,800	**30,850**	6,227	4,912	7,742	5,779
30,850	**30,900**	6,244	4,924	7,761	5,795
30,900	**30,950**	6,261	4,937	7,780	5,811
30,950	**31,000**	6,278	4,949	7,799	5,827
31,000					
31,000	**31,050**	6,295	4,962	7,818	5,843
31,050	**31,100**	6,312	4,974	7,837	5,859
31,100	**31,150**	6,329	4,987	7,856	5,875
31,150	**31,200**	6,346	5,001	7,875	5,891
31,200	**31,250**	6,363	5,015	7,894	5,907
31,250	**31,300**	6,380	5,029	7,915	5,923
31,300	**31,350**	6,397	5,043	7,936	5,939
31,350	**31,400**	6,414	5,057	7,957	5,955
31,400	**31,450**	6,431	5,071	7,978	5,971
31,450	**31,500**	6,448	5,085	7,999	5,987
31,500	**31,550**	6,465	5,099	8,020	6,003
31,550	**31,600**	6,482	5,113	8,041	6,019
31,600	**31,650**	6,499	5,127	8,062	6,035
31,650	**31,700**	6,516	5,141	8,083	6,051
31,700	**31,750**	6,533	5,155	8,104	6,067
31,750	**31,800**	6,550	5,169	8,125	6,083
31,800	**31,850**	6,567	5,183	8,146	6,099
31,850	**31,900**	6,584	5,197	8,167	6,115
31,900	**31,950**	6,601	5,211	8,188	6,131
31,950	**32,000**	6,618	5,225	8,209	6,147

Continued on next page

1985 Tax Table—*Continued*

If 1040A, line 19, OR 1040EZ, line 7 is—		And you are—			
At least	But less than	Single (and 1040EZ filers)	Married filing jointly	Married filing separately	Head of a household
		Your tax is—			
32,000					
32,000	**32,050**	6,635	5,239	8,230	6,163
32,050	**32,100**	6,652	5,253	8,251	6,179
32,100	**32,150**	6,669	5,267	8,272	6,195
32,150	**32,200**	6,686	5,281	8,293	6,211
32,200	**32,250**	6,703	5,295	8,314	6,227
32,250	**32,300**	6,720	5,309	8,335	6,243
32,300	**32,350**	6,737	5,323	8,356	6,259
32,350	**32,400**	6,754	5,337	8,377	6,275
32,400	**32,450**	6,771	5,351	8,398	6,291
32,450	**32,500**	6,788	5,365	8,419	6,307
32,500	**32,550**	6,805	5,379	8,440	6,323
32,550	**32,600**	6,822	5,393	8,461	6,339
32,600	**32,650**	6,839	5,407	8,482	6,355
32,650	**32,700**	6,856	5,421	8,503	6,371
32,700	**32,750**	6,873	5,435	8,524	6,387
32,750	**32,800**	6,890	5,449	8,545	6,403
32,800	**32,850**	6,907	5,463	8,566	6,419
32,850	**32,900**	6,924	5,477	8,587	6,435
32,900	**32,950**	6,941	5,491	8,608	6,451
32,950	**33,000**	6,958	5,505	8,629	6,467
33,000					
33,000	**33,050**	6,975	5,519	8,650	6,483
33,050	**33,100**	6,992	5,533	8,671	6,499
33,100	**33,150**	7,009	5,547	8,692	6,515
33,150	**33,200**	7,026	5,561	8,713	6,531
33,200	**33,250**	7,043	5,575	8,734	6,547
33,250	**33,300**	7,060	5,589	8,755	6,563
33,300	**33,350**	7,077	5,603	8,776	6,579
33,350	**33,400**	7,094	5,617	8,797	6,595
33,400	**33,450**	7,111	5,631	8,818	6,611
33,450	**33,500**	7,128	5,645	8,839	6,627
33,500	**33,550**	7,145	5,659	8,860	6,643
33,550	**33,600**	7,162	5,673	8,881	6,659
33,600	**33,650**	7,179	5,687	8,902	6,675
33,650	**33,700**	7,196	5,701	8,923	6,691
33,700	**33,750**	7,213	5,715	8,944	6,707
33,750	**33,800**	7,230	5,729	8,965	6,723
33,800	**33,850**	7,247	5,743	8,986	6,739
33,850	**33,900**	7,264	5,757	9,007	6,755
33,900	**33,950**	7,281	5,771	9,028	6,771
33,950	**34,000**	7,298	5,785	9,049	6,787
34,000					
34,000	**34,050**	7,315	5,799	9,070	6,803
34,050	**34,100**	7,332	5,813	9,091	6,819
34,100	**34,150**	7,349	5,827	9,112	6,835
34,150	**34,200**	7,366	5,841	9,133	6,851
34,200	**34,250**	7,383	5,855	9,154	6,867
34,250	**34,300**	7,400	5,869	9,175	6,883
34,300	**34,350**	7,417	5,883	9,196	6,899
34,350	**34,400**	7,434	5,897	9,217	6,915
34,400	**34,450**	7,451	5,911	9,238	6,931
34,450	**34,500**	7,468	5,925	9,259	6,947
34,500	**34,550**	7,485	5,939	9,280	6,963
34,550	**34,600**	7,502	5,953	9,301	6,979
34,600	**34,650**	7,519	5,967	9,322	6,995
34,650	**34,700**	7,536	5,981	9,343	7,011
34,700	**34,750**	7,553	5,995	9,364	7,027
34,750	**34,800**	7,570	6,009	9,385	7,043
34,800	**34,850**	7,587	6,023	9,406	7,059
34,850	**34,900**	7,604	6,037	9,427	7,075
34,900	**34,950**	7,621	6,051	9,448	7,091
34,950	**35,000**	7,638	6,065	9,469	7,107
35,000					
35,000	**35,050**	7,655	6,079	9,490	7,123
35,050	**35,100**	7,672	6,093	9,511	7,139
35,100	**35,150**	7,689	6,107	9,532	7,155
35,150	**35,200**	7,706	6,121	9,553	7,171
35,200	**35,250**	7,723	6,135	9,574	7,187
35,250	**35,300**	7,740	6,149	9,595	7,203
35,300	**35,350**	7,757	6,163	9,616	7,219
35,350	**35,400**	7,774	6,177	9,637	7,235
35,400	**35,450**	7,791	6,191	9,658	7,251
35,450	**35,500**	7,808	6,205	9,679	7,267
35,500	**35,550**	7,827	6,219	9,700	7,284
35,550	**35,600**	7,846	6,233	9,721	7,301
35,600	**35,650**	7,865	6,247	9,742	7,319
35,650	**35,700**	7,884	6,261	9,763	7,336
35,700	**35,750**	7,903	6,275	9,784	7,354
35,750	**35,800**	7,922	6,289	9,805	7,371
35,800	**35,850**	7,941	6,303	9,826	7,389
35,850	**35,900**	7,960	6,317	9,847	7,406
35,900	**35,950**	7,979	6,331	9,868	7,424
35,950	**36,000**	7,998	6,345	9,889	7,441
36,000					
36,000	**36,050**	8,017	6,359	9,910	7,459
36,050	**36,100**	8,036	6,373	9,931	7,476
36,100	**36,150**	8,055	6,387	9,952	7,494
36,150	**36,200**	8,074	6,401	9,973	7,511
36,200	**36,250**	8,093	6,415	9,994	7,529
36,250	**36,300**	8,112	6,429	10,015	7,546
36,300	**36,350**	8,131	6,443	10,036	7,564
36,350	**36,400**	8,150	6,457	10,057	7,581
36,400	**36,450**	8,169	6,471	10,078	7,599
36,450	**36,500**	8,188	6,485	10,099	7,616
36,500	**36,550**	8,207	6,499	10,120	7,634
36,550	**36,600**	8,226	6,513	10,141	7,651
36,600	**36,650**	8,245	6,527	10,162	7,669
36,650	**36,700**	8,264	6,543	10,183	7,686
36,700	**36,750**	8,283	6,560	10,204	7,704
36,750	**36,800**	8,302	6,576	10,225	7,721
36,800	**36,850**	8,321	6,593	10,246	7,739
36,850	**36,900**	8,340	6,609	10,267	7,756
36,900	**36,950**	8,359	6,626	10,288	7,774
36,950	**37,000**	8,378	6,642	10,309	7,791
37,000					
37,000	**37,050**	8,397	6,659	10,330	7,809
37,050	**37,100**	8,416	6,675	10,351	7,826
37,100	**37,150**	8,435	6,692	10,372	7,844
37,150	**37,200**	8,454	6,708	10,393	7,861
37,200	**37,250**	8,473	6,725	10,414	7,879
37,250	**37,300**	8,492	6,741	10,435	7,896
37,300	**37,350**	8,511	6,758	10,456	7,914
37,350	**37,400**	8,530	6,774	10,477	7,931
37,400	**37,450**	8,549	6,791	10,498	7,949
37,450	**37,500**	8,568	6,807	10,519	7,966
37,500	**37,550**	8,587	6,824	10,540	7,984
37,550	**37,600**	8,606	6,840	10,561	8,001
37,600	**37,650**	8,625	6,857	10,582	8,019
37,650	**37,700**	8,644	6,873	10,603	8,036
37,700	**37,750**	8,663	6,890	10,624	8,054
37,750	**37,800**	8,682	6,906	10,645	8,071
37,800	**37,850**	8,701	6,923	10,666	8,089
37,850	**37,900**	8,720	6,939	10,687	8,106
37,900	**37,950**	8,739	6,956	10,708	8,124
37,950	**38,000**	8,758	6,972	10,729	8,141
38,000					
38,000	**38,050**	8,777	6,989	10,750	8,159
38,050	**38,100**	8,796	7,005	10,771	8,176
38,100	**38,150**	8,815	7,022	10,792	8,194
38,150	**38,200**	8,834	7,038	10,813	8,211
38,200	**38,250**	8,853	7,055	10,834	8,229
38,250	**38,300**	8,872	7,071	10,855	8,246
38,300	**38,350**	8,891	7,088	10,876	8,264
38,350	**38,400**	8,910	7,104	10,897	8,281
38,400	**38,450**	8,929	7,121	10,918	8,299
38,450	**38,500**	8,948	7,137	10,939	8,316
38,500	**38,550**	8,967	7,154	10,960	8,334
38,550	**38,600**	8,986	7,170	10,981	8,351
38,600	**38,650**	9,005	7,187	11,002	8,369
38,650	**38,700**	9,024	7,203	11,023	8,386
38,700	**38,750**	9,043	7,220	11,044	8,404
38,750	**38,800**	9,062	7,236	11,065	8,421
38,800	**38,850**	9,081	7,253	11,086	8,439
38,850	**38,900**	9,100	7,269	11,107	8,456
38,900	**38,950**	9,119	7,286	11,128	8,474
38,950	**39,000**	9,138	7,302	11,149	8,491
39,000					
39,000	**39,050**	9,157	7,319	11,170	8,509
39,050	**39,100**	9,176	7,335	11,191	8,526
39,100	**39,150**	9,195	7,352	11,212	8,544
39,150	**39,200**	9,214	7,368	11,233	8,561
39,200	**39,250**	9,233	7,385	11,254	8,579
39,250	**39,300**	9,252	7,401	11,275	8,596
39,300	**39,350**	9,271	7,418	11,296	8,614
39,350	**39,400**	9,290	7,434	11,317	8,631
39,400	**39,450**	9,309	7,451	11,338	8,649
39,450	**39,500**	9,328	7,467	11,359	8,666
39,500	**39,550**	9,347	7,484	11,380	8,684
39,550	**39,600**	9,366	7,500	11,401	8,701
39,600	**39,650**	9,385	7,517	11,422	8,719
39,650	**39,700**	9,404	7,533	11,443	8,736
39,700	**39,750**	9,423	7,550	11,464	8,754
39,750	**39,800**	9,442	7,566	11,485	8,771
39,800	**39,850**	9,461	7,583	11,506	8,789
39,850	**39,900**	9,480	7,599	11,527	8,806
39,900	**39,950**	9,499	7,616	11,548	8,824
39,950	**40,000**	9,518	7,632	11,569	8,841
40,000					
40,000	**40,050**	9,537	7,649	11,590	8,859
40,050	**40,100**	9,556	7,665	11,611	8,876
40,100	**40,150**	9,575	7,682	11,632	8,894
40,150	**40,200**	9,594	7,698	11,653	8,911
40,200	**40,250**	9,613	7,715	11,674	8,929
40,250	**40,300**	9,632	7,731	11,695	8,946
40,300	**40,350**	9,651	7,748	11,716	8,964
40,350	**40,400**	9,670	7,764	11,737	8,981
40,400	**40,450**	9,689	7,781	11,758	8,999
40,450	**40,500**	9,708	7,797	11,779	9,016
40,500	**40,550**	9,727	7,814	11,800	9,034
40,550	**40,600**	9,746	7,830	11,821	9,051
40,600	**40,650**	9,765	7,847	11,842	9,069
40,650	**40,700**	9,784	7,863	11,863	9,086
40,700	**40,750**	9,803	7,880	11,884	9,104
40,750	**40,800**	9,822	7,896	11,905	9,121
40,800	**40,850**	9,841	7,913	11,926	9,139
40,850	**40,900**	9,860	7,929	11,947	9,156
40,900	**40,950**	9,879	7,946	11,968	9,174
40,950	**41,000**	9,898	7,962	11,989	9,191

Continued on next page

If 1040A, line 19, OR 1040EZ, line 7 is—		And you are—			
At least	But less than	Single (and 1040EZ filers)	Married filing jointly	Married filing separately	Head of a household
		Your tax is—			
41,000					
41,000	**41,050**	9,917	7,979	12,010	9,209
41,050	**41,100**	9,936	7,995	12,031	9,226
41,100	**41,150**	9,955	8,012	12,052	9,244
41,150	**41,200**	9,974	8,028	12,073	9,261
41,200	**41,250**	9,993	8,045	12,094	9,279
41,250	**41,300**	10,012	8,061	12,115	9,296
41,300	**41,350**	10,031	8,078	12,136	9,314
41,350	**41,400**	10,050	8,094	12,157	9,331
41,400	**41,450**	10,069	8,111	12,178	9,349
41,450	**41,500**	10,088	8,127	12,199	9,366
41,500	**41,550**	10,107	8,144	12,220	9,384
41,550	**41,600**	10,126	8,160	12,241	9,401
41,600	**41,650**	10,145	8,177	12,262	9,419
41,650	**41,700**	10,164	8,193	12,283	9,436
41,700	**41,750**	10,183	8,210	12,304	9,454
41,750	**41,800**	10,202	8,226	12,325	9,471
41,800	**41,850**	10,221	8,243	12,346	9,489
41,850	**41,900**	10,240	8,259	12,367	9,506
41,900	**41,950**	10,259	8,276	12,388	9,524
41,950	**42,000**	10,278	8,292	12,409	9,541
42,000					
42,000	**42,050**	10,297	8,309	12,430	9,559
42,050	**42,100**	10,316	8,325	12,451	9,576
42,100	**42,150**	10,335	8,342	12,472	9,594
42,150	**42,200**	10,354	8,358	12,493	9,611
42,200	**42,250**	10,373	8,375	12,514	9,629
42,250	**42,300**	10,392	8,391	12,535	9,646
42,300	**42,350**	10,411	8,408	12,556	9,664
42,350	**42,400**	10,430	8,424	12,577	9,681
42,400	**42,450**	10,449	8,441	12,598	9,699
42,450	**42,500**	10,468	8,457	12,619	9,716
42,500	**42,550**	10,487	8,474	12,640	9,734
42,550	**42,600**	10,506	8,490	12,661	9,751
42,600	**42,650**	10,525	8,507	12,682	9,769
42,650	**42,700**	10,544	8,523	12,703	9,786
42,700	**42,750**	10,563	8,540	12,724	9,804
42,750	**42,800**	10,582	8,556	12,745	9,821
42,800	**42,850**	10,601	8,573	12,766	9,839
42,850	**42,900**	10,620	8,589	12,787	9,856
42,900	**42,950**	10,639	8,606	12,808	9,874
42,950	**43,000**	10,658	8,622	12,829	9,891
43,000					
43,000	**43,050**	10,677	8,639	12,850	9,909
43,050	**43,100**	10,696	8,655	12,871	9,926
43,100	**43,150**	10,715	8,672	12,892	9,944
43,150	**43,200**	10,734	8,688	12,913	9,961
43,200	**43,250**	10,754	8,705	12,934	9,979
43,250	**43,300**	10,775	8,721	12,955	9,996
43,300	**43,350**	10,796	8,738	12,976	10,014
43,350	**43,400**	10,817	8,754	12,997	10,031
43,400	**43,450**	10,838	8,771	13,018	10,049
43,450	**43,500**	10,859	8,787	13,039	10,066
43,500	**43,550**	10,880	8,804	13,060	10,084
43,550	**43,600**	10,901	8,820	13,081	10,101
43,600	**43,650**	10,922	8,837	13,102	10,119
43,650	**43,700**	10,943	8,853	13,123	10,136
43,700	**43,750**	10,964	8,870	13,144	10,154
43,750	**43,800**	10,985	8,886	13,165	10,171
43,800	**43,850**	11,006	8,903	13,186	10,189
43,850	**43,900**	11,027	8,919	13,207	10,206
43,900	**43,950**	11,048	8,936	13,228	10,224
43,950	**44,000**	11,069	8,952	13,249	10,241

If 1040A, line 19, OR 1040EZ, line 7 is—		And you are—			
At least	But less than	Single (and 1040EZ filers)	Married filing jointly	Married filing separately	Head of a household
		Your tax is—			
44,000					
44,000	**44,050**	11,090	8,969	13,270	10,259
44,050	**44,100**	11,111	8,985	13,291	10,276
44,100	**44,150**	11,132	9,002	13,312	10,294
44,150	**44,200**	11,153	9,018	13,333	10,311
44,200	**44,250**	11,174	9,035	13,354	10,329
44,250	**44,300**	11,195	9,051	13,375	10,346
44,300	**44,350**	11,216	9,068	13,396	10,364
44,350	**44,400**	11,237	9,084	13,417	10,381
44,400	**44,450**	11,258	9,101	13,438	10,399
44,450	**44,500**	11,279	9,117	13,459	10,416
44,500	**44,550**	11,300	9,134	13,480	10,434
44,550	**44,600**	11,321	9,150	13,502	10,451
44,600	**44,650**	11,342	9,167	13,524	10,469
44,650	**44,700**	11,363	9,183	13,547	10,486
44,700	**44,750**	11,384	9,200	13,569	10,504
44,750	**44,800**	11,405	9,216	13,592	10,521
44,800	**44,850**	11,426	9,233	13,614	10,539
44,850	**44,900**	11,447	9,249	13,637	10,556
44,900	**44,950**	11,468	9,266	13,659	10,574
44,950	**45,000**	11,489	9,282	13,682	10,591
45,000					
45,000	**45,050**	11,510	9,299	13,704	10,609
45,050	**45,100**	11,531	9,315	13,727	10,626
45,100	**45,150**	11,552	9,332	13,749	10,644
45,150	**45,200**	11,573	9,348	13,772	10,661
45,200	**45,250**	11,594	9,365	13,794	10,679
45,250	**45,300**	11,615	9,381	13,817	10,696
45,300	**45,350**	11,636	9,398	13,839	10,714
45,350	**45,400**	11,657	9,414	13,862	10,731
45,400	**45,450**	11,678	9,431	13,884	10,749
45,450	**45,500**	11,699	9,447	13,907	10,766
45,500	**45,550**	11,720	9,464	13,929	10,784
45,550	**45,600**	11,741	9,480	13,952	10,801
45,600	**45,650**	11,762	9,497	13,974	10,819
45,650	**45,700**	11,783	9,513	13,997	10,836
45,700	**45,750**	11,804	9,530	14,019	10,854
45,750	**45,800**	11,825	9,546	14,042	10,871
45,800	**45,850**	11,846	9,563	14,064	10,889
45,850	**45,900**	11,867	9,579	14,087	10,906
45,900	**45,950**	11,888	9,596	14,109	10,924
45,950	**46,000**	11,909	9,612	14,132	10,941
46,000					
46,000	**46,050**	11,930	9,629	14,154	10,959
46,050	**46,100**	11,951	9,645	14,177	10,976
46,100	**46,150**	11,972	9,662	14,199	10,994
46,150	**46,200**	11,993	9,678	14,222	11,011
46,200	**46,250**	12,014	9,695	14,244	11,029
46,250	**46,300**	12,035	9,711	14,267	11,046
46,300	**46,350**	12,056	9,728	14,289	11,064
46,350	**46,400**	12,077	9,744	14,312	11,081
46,400	**46,450**	12,098	9,761	14,334	11,099
46,450	**46,500**	12,119	9,777	14,357	11,116
46,500	**46,550**	12,140	9,794	14,379	11,134
46,550	**46,600**	12,161	9,810	14,402	11,155
46,600	**46,650**	12,182	9,827	14,424	11,176
46,650	**46,700**	12,203	9,843	14,447	11,197
46,700	**46,750**	12,224	9,860	14,469	11,218
46,750	**46,800**	12,245	9,876	14,492	11,239
46,800	**46,850**	12,266	9,893	14,514	11,260
46,850	**46,900**	12,287	9,909	14,537	11,281
46,900	**46,950**	12,308	9,926	14,559	11,302
46,950	**47,000**	12,329	9,942	14,582	11,323

If 1040A, line 19, OR 1040EZ, line 7 is—		And you are—			
At least	But less than	Single (and 1040EZ filers)	Married filing jointly	Married filing separately	Head of a household
		Your tax is—			
47,000					
47,000	**47,050**	12,350	9,959	14,604	11,344
47,050	**47,100**	12,371	9,975	14,627	11,365
47,100	**47,150**	12,392	9,992	14,649	11,386
47,150	**47,200**	12,413	10,008	14,672	11,407
47,200	**47,250**	12,434	10,025	14,694	11,428
47,250	**47,300**	12,455	10,041	14,717	11,449
47,300	**47,350**	12,476	10,058	14,739	11,470
47,350	**47,400**	12,497	10,074	14,762	11,491
47,400	**47,450**	12,518	10,091	14,784	11,512
47,450	**47,500**	12,539	10,107	14,807	11,533
47,500	**47,550**	12,560	10,124	14,829	11,554
47,550	**47,600**	12,581	10,140	14,852	11,575
47,600	**47,650**	12,602	10,157	14,874	11,596
47,650	**47,700**	12,623	10,174	14,897	11,617
47,700	**47,750**	12,644	10,193	14,919	11,638
47,750	**47,800**	12,665	10,212	14,942	11,659
47,800	**47,850**	12,686	10,231	14,964	11,680
47,850	**47,900**	12,707	10,250	14,987	11,701
47,900	**47,950**	12,728	10,269	15,009	11,722
47,950	**48,000**	12,749	10,288	15,032	11,743
48,000					
48,000	**48,050**	12,770	10,307	15,054	11,764
48,050	**48,100**	12,791	10,326	15,077	11,785
48,100	**48,150**	12,812	10,345	15,099	11,806
48,150	**48,200**	12,833	10,364	15,122	11,827
48,200	**48,250**	12,854	10,383	15,144	11,848
48,250	**48,300**	12,875	10,402	15,167	11,869
48,300	**48,350**	12,896	10,421	15,189	11,890
48,350	**48,400**	12,917	10,440	15,212	11,911
48,400	**48,450**	12,938	10,459	15,234	11,932
48,450	**48,500**	12,959	10,478	15,257	11,953
48,500	**48,550**	12,980	10,497	15,279	11,974
48,550	**48,600**	13,001	10,516	15,302	11,995
48,600	**48,650**	13,022	10,535	15,324	12,016
48,650	**48,700**	13,043	10,554	15,347	12,037
48,700	**48,750**	13,064	10,573	15,369	12,058
48,750	**48,800**	13,085	10,592	15,392	12,079
48,800	**48,850**	13,106	10,611	15,414	12,100
48,850	**48,900**	13,127	10,630	15,437	12,121
48,900	**48,950**	13,148	10,649	15,459	12,142
48,950	**49,000**	13,169	10,668	15,482	12,163
49,000					
49,000	**49,050**	13,190	10,687	15,504	12,184
49,050	**49,100**	13,211	10,706	15,527	12,205
49,100	**49,150**	13,232	10,725	15,549	12,226
49,150	**49,200**	13,253	10,744	15,572	12,247
49,200	**49,250**	13,274	10,763	15,594	12,268
49,250	**49,300**	13,295	10,782	15,617	12,289
49,300	**49,350**	13,316	10,801	15,639	12,310
49,350	**49,400**	13,337	10,820	15,662	12,331
49,400	**49,450**	13,358	10,839	15,684	12,352
49,450	**49,500**	13,379	10,858	15,707	12,373
49,500	**49,550**	13,400	10,877	15,729	12,394
49,550	**49,600**	13,421	10,896	15,752	12,415
49,600	**49,650**	13,442	10,915	15,774	12,436
49,650	**49,700**	13,463	10,934	15,797	12,457
49,700	**49,750**	13,484	10,953	15,819	12,478
49,750	**49,800**	13,505	10,972	15,842	12,499
49,800	**49,850**	13,526	10,991	15,864	12,520
49,850	**49,900**	13,547	11,010	15,887	12,541
49,900	**49,950**	13,568	11,029	15,909	12,562
49,950	**50,000**	13,589	11,048	15,932	12,583

50,000 or over—use Form 1040

1985 Earned Income Credit Table

(Caution—This is not a tax table)

Read down the column titled "If line A or B of the worksheet is—" and find the appropriate amount from the Earned Income Credit Worksheet on page 27. Read across to the right and find the amount of your earned income credit. Enter that amount on line C or D of the worksheet, whichever applies.

If line A or B of the worksheet is— Over	But not over	Your earned income credit is—
$0	$50	$3
50	100	8
100	150	14
150	200	19
200	250	25
250	300	30
300	350	36
350	400	41
400	450	47
450	500	52
500	550	58
550	600	63
600	650	69
650	700	74
700	750	80
750	800	85
800	850	91
850	900	96
900	950	102
950	1,000	107
1,000	1,050	113
1,050	1,100	118
1,100	1,150	124
1,150	1,200	129
1,200	1,250	135
1,250	1,300	140
1,300	1,350	146
1,350	1,400	151
1,400	1,450	157
1,450	1,500	162
1,500	1,550	168
1,550	1,600	173
1,600	1,650	179
1,650	1,700	184
1,700	1,750	190
1,750	1,800	195
1,800	1,850	201
1,850	1,900	206
1,900	1,950	212
1,950	2,000	217
2,000	2,050	223
2,050	2,100	228
2,100	2,150	234
2,150	2,200	239
2,200	2,250	245
2,250	2,300	250
2,300	2,350	256
2,350	2,400	261
2,400	2,450	267
2,450	2,500	272
2,500	2,550	278
2,550	2,600	283
2,600	2,650	289
2,650	2,700	294
2,700	2,750	300
2,750	2,800	305
2,800	2,850	311
2,850	2,900	316
2,900	2,950	322
2,950	3,000	327
3,000	3,050	333
3,050	3,100	338
3,100	3,150	344
3,150	3,200	349
3,200	3,250	355
3,250	3,300	360
3,300	3,350	366
3,350	3,400	371
3,400	3,450	377
3,450	3,500	382
3,500	3,550	388
3,550	3,600	393
3,600	3,650	399
3,650	3,700	404
3,700	3,750	410
3,750	3,800	415
3,800	3,850	421
3,850	3,900	426
3,900	3,950	432
3,950	4,000	437
4,000	4,050	443
4,050	4,100	448
4,100	4,150	454
4,150	4,200	459
4,200	4,250	465
4,250	4,300	470
4,300	4,350	476
4,350	4,400	481
4,400	4,450	487
4,450	4,500	492
4,500	4,550	498
4,550	4,600	503
4,600	4,650	509
4,650	4,700	514
4,700	4,750	520
4,750	4,800	525
4,800	4,850	531
4,850	4,900	536
4,900	4,950	542
4,950	5,000	547
5,000	6,500	550
6,500	6,550	547
6,550	6,600	541
6,600	6,650	535
6,650	6,700	529
6,700	6,750	523
6,750	6,800	516
6,800	6,850	510
6,850	6,900	504
6,900	6,950	498
6,950	7,000	492
7,000	7,050	486
7,050	7,100	480
7,100	7,150	474
7,150	7,200	468
7,200	7,250	461
7,250	7,300	455
7,300	7,350	449
7,350	7,400	443
7,400	7,450	437
7,450	7,500	431
7,500	7,550	425
7,550	7,600	419
7,600	7,650	413
7,650	7,700	406
7,700	7,750	400
7,750	7,800	394
7,800	7,850	388
7,850	7,900	382
7,900	7,950	376
7,950	8,000	370
8,000	8,050	364
8,050	8,100	358
8,100	8,150	351
8,150	8,200	345
8,200	8,250	339
8,250	8,300	333
8,300	8,350	327
8,350	8,400	321
8,400	8,450	315
8,450	8,500	309
8,500	8,550	303
8,550	8,600	296
8,600	8,650	290
8,650	8,700	284
8,700	8,750	278
8,750	8,800	272
8,800	8,850	266
8,850	8,900	260
8,900	8,950	254
8,950	9,000	248
9,000	9,050	241
9,050	9,100	235
9,100	9,150	229
9,150	9,200	223
9,200	9,250	217
9,250	9,300	211
9,300	9,350	205
9,350	9,400	199
9,400	9,450	193
9,450	9,500	186
9,500	9,550	180
9,550	9,600	174
9,600	9,650	168
9,650	9,700	162
9,700	9,750	156
9,750	9,800	150
9,800	9,850	144
9,850	9,900	138
9,900	9,950	131
9,950	10,000	125
10,000	10,050	119
10,050	10,100	113
10,100	10,150	107
10,150	10,200	101
10,200	10,250	95
10,250	10,300	89
10,300	10,350	83
10,350	10,400	76
10,400	10,450	70
10,450	10,500	64
10,500	10,550	58
10,550	10,600	52
10,600	10,650	46
10,650	10,700	40
10,700	10,750	34
10,750	10,800	28
10,800	10,850	21
10,850	10,900	15
10,900	10,950	9
10,950	10,999	3

$11,000 or more—you cannot take the credit

Tele-Tax

How To Use Tele-Tax Information

Recorded Tax Information. IRS has recorded about 150 topics of tax information that answer many Federal tax questions. You can hear up to three topics on each call you make. **Automated Refund Information** is available at selected locations after March 15. If it has been ten weeks since you mailed your 1985 tax return, we will be able to check the status of your refund.

Tele-Tax is not a toll-free call. Long-distance charges apply if you call from outside the local dialing area of the numbers listed below. A complete list of these topics and instructions on how to use Tele-Tax are on the next page.

Note: *Cities with a **1** or **2** before them only have recorded tax information. Cities with a **1** before them can be called **only** if you have a push-button (tone signalling) phone. Cities with a **2** before them can be called if you have a rotary (dial) or push-button (pulse dial) phone. Cities with a **3** before them have recorded tax information and automated refund information and can be called by using any type of phone.*

Alabama

1 Birmingham, 251-9454
2 Birmingham, 251-3881
1 Huntsville, 534-5203
1 Mobile, 433-6993
1 Montgomery, 262-8304

Alaska

1 Anchorage, 562-1848
3 Anchorage, 561-7417

Arizona

3 Phoenix, 252-4909
1 Tucson, 624-9042

Arkansas

1 Little Rock, 372-3891
3 Little Rock, 374-3117

California

1 Bakersfield, 861-4105
1 Carson, 632-3555
1 El Monte, 571-6902
1 Fresno, 268-5395
3 Laguna Niguel, 643-4246
3 Los Angeles, 617-3177
3 Oakland, 839-4245
1 Oxnard, 485-7236
1 Riverside, 351-6769
1 Sacramento, 448-4367
3 Sacramento, 448-4556
1 San Diego, 293-5020
1 San Francisco, 863-4039
1 San Jose, 293-5606
3 San Jose, 279-0576
1 Santa Ana, 836-2974
1 Santa Maria, 928-7503
1 Santa Rosa, 528-6233
1 Stockton, 463-6005
1 Van Nuys, 904-6393
1 Visalia, 733-8194

Colorado

1 Colorado Springs, 597-6344
3 Denver, 592-1118
1 Ft. Collins, 221-0658

Connecticut

1 Bridgeport, 335-0070
1 Hartford, 547-0015
2 Hartford, 247-5500
1 New Haven, 777-4594
1 Waterbury, 754-4235

Delaware

1 Dover, 674-1118
1 Wilmington, 652-0272
3 Wilmington, 571-1097

District of Columbia

3 Call, 628-2929

Florida

1 Daytona Beach, 253-0669
1 Ft. Lauderdale, 523-3100
3 Jacksonville, 353-9579
1 Miami, 374-5144
2 Miami, 372-0397
1 Orlando, 422-0592
2 Orlando, 843-0762
1 St. Petersburg, 578-0424
1 Tallahassee, 222-0807
1 Tampa, 229-0815
1 West Palm Beach, 655-1996

Georgia

1 Albany, 435-1415
3 Atlanta, 331-6572
1 Augusta, 722-9068
1 Columbus, 327-0298
1 Macon, 745-2890
1 Savannah, 355-9632

Hawaii

1 Honolulu, 546-7162
3 Honolulu, 946-4100

Idaho

1 Boise, 383-0034
3 Boise, 344-8628

Illinois

1 Aurora, 851-2718
1 Bloomington, 828-6116
1 Champaign, 398-1779
3 Chicago, 886-9614
1 East St. Louis, 875-4050
1 Ottawa, 433-1568
1 Peoria, 637-9305
1 Quad Cities, 326-1720
1 Rockford, 987-4280
1 Springfield, 789-0489
3 Springfield, 753-0316

Indiana

1 Evansville, 422-1026
1 Fort Wayne, 484-3065
1 Gary, 884-4465
3 Indianapolis, 634-1550
1 South Bend, 232-5459

Iowa

1 Cedar Rapids, 399-2210
1 Des Moines, 284-4271
3 Des Moines, 284-4050
1 Quad Cities, 326-1720
1 Waterloo, 234-0817

Kansas

1 Wichita, 264-3147
3 Wichita, 262-4454

Kentucky

1 Erlanger, 727-3338
1 Lexington, 233-2889
1 Louisville, 582-5599
2 Louisville, 582-6372

Louisiana

1 New Orleans, 529-2854
2 New Orleans, 589-4620

Maine

2 Augusta, 623-3854
1 Portland, 775-0465

Maryland

3 Baltimore, 244-7306
1 Cumberland, 722-5331
1 Frederick, 663-5798
1 Hagerstown, 733-6815
1 Salisbury, 742-9458

Massachusetts

3 Boston, 523-8602
1 Springfield, 739-6624

Michigan

1 Ann Arbor, 665-4544
3 Detroit, 961-4282
1 Flint, 238-4599
1 Grand Rapids, 451-2034
1 Kalamazoo, 343-0255
1 Lansing, 372-2454
1 Mt. Clemens, 463-9550
1 Pontiac, 858-2336
1 Saginaw, 753-9911

Minnesota

1 Duluth, 722-5494
1 Rochester, 288-5595
3 St. Paul, 224-4288

Mississippi

1 Gulfport, 863-3302
1 Jackson, 960-4168
3 Jackson, 960-4808

Missouri

1 Jefferson City, 636-8312
1 Kansas City, 421-3741
1 Springfield, 883-3419
3 St. Louis, 241-4700

Montana

1 Billings, 656-1422
1 Great Falls, 727-4902
1 Helena, 443-7034
3 Helena, 443-0600

Nebraska

1 Lincoln, 471-5450
1 Omaha, 221-3324
3 Omaha, 345-8224

Nevada

1 Las Vegas, 385-1778
3 Las Vegas, 388-6925

New Hampshire

1 Manchester, 623-5778
2 Portsmouth, 431-0780

New Jersey

1 Atlantic City, 348-2636
1 Camden, 966-3412
1 Hackensack, 487-1817
3 Newark, 624-1223
1 Paterson, 278-5442
1 Trenton, 599-2150

New Mexico

1 Albuquerque, 766-1102
3 Albuquerque, 243-4557

New York

1 Albany, 465-8318
2 Albany, 465-3566
1 Binghamton, 722-8426
3 Brooklyn, 858-4461
3 Buffalo, 856-9320
3 Manhattan, 406-4080
1 Mineola, 248-6790
1 Poughkeepsie, 452-1877
1 Rochester, 454-3330
1 Smithtown, 979-0720
1 Syracuse, 471-1630
1 White Plains, 683-0134

North Carolina

1 Asheville, 254-3044
1 Charlotte, 567-9885
1 Durham, 541-5283
1 Fayetteville, 483-0735
1 Greensboro, 378-1572
2 Greensboro, 379-1168
1 Raleigh, 755-1498
1 Winston-Salem, 725-3013

North Dakota

1 Bismarck, 258-8210
1 Fargo, 232-9360
3 Fargo, 232-1070
1 Grand Forks, 746-0324
1 Minot, 838-1234

Ohio

1 Akron, 253-1170
1 Canton, 455-6061
3 Cincinnati, 421-0329
3 Cleveland, 522-3037
1 Columbus, 469-2266
1 Dayton, 225-7237
1 Lima, 224-0341
1 Mansfield, 525-3474
1 Toledo, 255-3743
1 Youngstown, 744-4200

Oklahoma

1 Oklahoma City, 235-3434
3 Oklahoma City, 235-4907
1 Tulsa, 599-0555

Oregon

1 Eugene, 687-6737
3 Portland, 294-5363
1 Salem, 399-5784

Pennsylvania

1 Bethlehem, 861-0325
1 Erie, 459-7419
1 Harrisburg, 236-1356
1 Jenkintown, 887-1261
1 Lancaster, 392-0980
1 Norristown, 275-0242
3 Philadelphia, 592-8946
1 Pittsburgh, 281-3120
2 Pittsburgh, 281-3138
1 Reading, 373-4568
1 Scranton, 961-0325
1 Wilkes-Barre, 823-9552
1 Williamsport, 323-4242

Puerto Rico

1 & 2 Call, 753-4055

Rhode Island

1 Providence, 861-5220
2 Providence, 521-6440

South Carolina

1 Charleston, 722-0369
1 Columbia, 254-4749
3 Columbia, 799-8169
1 Greenville, 235-8093

South Dakota

3 Aberdeen, 229-6856
1 Brookings, 692-4507
1 Rapid City, 348-3454
1 Sioux Falls, 335-7081
1 Watertown, 882-4979

Tennessee

1 Chattanooga, 892-5577
1 Jackson, 664-1858
1 Johnson City, 282-1917
1 Knoxville, 521-7478
1 Memphis, 525-2611
3 Nashville, 242-1541

Texas

1 Austin, 479-0391
3 Austin, 478-6422
3 Dallas, 767-1792
1 El Paso, 778-9907
1 Ft. Worth, 334-3888
3 Houston, 850-8801
1 San Antonio, 680-9591

Utah

1 Salt Lake City, 355-9328
3 Salt Lake City, 359-9218

Vermont

1 Burlington, 658-0007
2 Burlington, 658-1149

Virginia

3 Bailey's Crossroads, 557-0034
1 Bristol, 669-0565
1 Danville, 797-2223
1 Norfolk, 441-3623
1 Richmond, 771-2369
2 Richmond, 771-2165
1 Roanoke, 982-6062

Washington

3 Seattle, 343-7221
1 Spokane, 455-9213
1 Tacoma, 383-4668

West Virginia

1 Charleston, 343-3597
1 Huntington, 523-0104
3 Parkersburg, 422-4011

Wisconsin

1 Eau Claire, 834-6121
1 Green Bay, 433-3884
1 Madison, 264-5349
3 Milwaukee, 291-1783
1 Racine, 886-1615

Wyoming

1 Cheyenne, 634-1198
3 Cheyenne, 638-6109

How To Use Tele-Tax

Recorded Tax Information

1. Select, by number, the topic you want to hear.
2. Have paper and pencil handy to take notes.
3. Call the appropriate phone number listed on page 38.
4.
   - If you have a push-button (tone signalling) phone, follow the recorded instructions, or
   - If you have a rotary (dial) or push-button (pulse dial) phone, ask the IRS operator for the topic number you want to hear.
5.
   - Push-button (tone signalling) service is available 24 hours a day, 7 days a week.
   - Rotary (dial)/push-button (pulse dial) service is available Monday through Friday during regular office hours. (In Hawaii, from 6:30 A.M. to 1:00 P.M.)

Automated Refund Information

1. Have a copy of your tax return available since you will need to know the first social security number shown on your return, the filing status, and the exact amount of your refund.
2. Call the appropriate phone number listed on page 38.
3. Follow the recorded instructions.
4.
   - Push-button (tone signalling) service is available Monday through Friday from 6:30 A.M. to 7:00 P.M. (Hours may vary in your area.)
   - Rotary (dial)/push-button (pulse dial) service is available Monday through Friday during regular office hours. (In Hawaii, from 6:30 A.M. to 1:00 P.M.)

Tele-Tax Topic Numbers and Subjects

IRS Procedures and Services

Topic No.	*Subject*
100	IRS help available—Volunteer tax assistance programs, toll-free telephone, walk-in assistance, and outreach program
101	Tax assistance for handicapped individuals and the deaf
102	Small business tax workshops—Tax help for the new business person
103	Problem resolution program—Special help for problem situations
104	Public libraries—Tax information tapes and reproducible tax forms
105	Examination procedures and how to prepare for an audit
106	The collection process
107	Tax fraud—How to report
108	Special enrollment examination to practice before IRS
109	Organizations—How to apply for exempt status

Filing Requirements, Filing Status, Exemptions

Topic No.	*Subject*
110	Who must file?
111	Which form—1040, 1040A, or 1040EZ?
112	When, where, and how to file
113	Filing requirements for a dependent child
114	Filing as single
115	Filing joint or separate
116	Filing as head of household
117	Filing as qualifying widow/widower
118	Filing status for separated individuals
119	Exemptions for age and blindness
120	Dependent—Who can be claimed?
121	Dependent child—Divorced or separated parents
122	Dependent—Items to include in determining support
126	Estimated tax
127	Amended returns
128	Decedents

Types of Income

Topic No.	*Subject*
130	Wages and salaries
131	Tips
132	Interest received
133	Dividends and dividend exclusion
134	Refund of state and local taxes
135	Alimony received
136	Business income
137	Sole proprietorship
138	Capital gains and losses
139	Pensions and annuities
140	Pensions—The general rule
141	Lump-sum distributions-Profit-sharing plans
143	Rental income and expenses
200	Renting vacation property/Renting to relatives
201	Royalties
202	Farming and fishing income
203	Earnings for clergy members
204	Unemployment compensation
205	Gambling income and expenses
206	Bartering income
207	Scholarships, fellowships, and grants
208	Nontaxable income
209	Social security and tier 1 railroad retirement taxability
210	Social Security Benefit Statement—Form SSA-1099

Adjustments to Income

Topic No.	*Subject*
211	Charitable contributions deduction for those who do not itemize
212	Deduction for married couples when both work
213	Moving expenses
214	Employee business expenses
215	Business use of car
216	Business travel expenses
217	Business entertainment expenses
218	Individual retirement accounts (IRA's)
219	Alimony paid
225	Bad debt deduction
226	Tax shelters

Itemized Deductions

Topic No.	*Subject*
227	Should I itemize?
228	Medical and dental expenses
229	Medical insurance
231	Taxes
232	Sales tax
233	Interest expense
234	Contributions
235	Casualty losses
236	Miscellaneous expenses
237	Office-in-the-home expenses
238	Educational expenses

Tax Computation

Topic No.	*Subject*
240	Tax table/Tax rate schedules
243	Tax and credits figured by IRS
244	Income averaging
300	Self-employment tax
301	Ten-year averaging for lump-sum distributions
303	Alternative minimum tax
304	Gift tax
305	Estate tax

Tax Credits

Topic No.	*Subject*
306	Child care credit
307	Earned income credit
308	Residential energy credit
309	Credit for the elderly and the permanently and totally disabled
310	Tax credit for contributions to candidates for public office
311	Investment credit
312	Qualified royalty owners exemption (windfall profit tax)

General Information

Topic No.	*Subject*
314	Substitute tax forms
315	Highlights of 1985 tax changes
316	Refunds—How long they should take
317	Copy of your tax return—How to get one
318	Forms/Publications—How to order
319	Tax shelter registration
320	Extensions for time to file your tax return
325	Form W-2—What to do if not received
327	IRS notices and bills/Penalty and interest charges
328	Tax benefits for low income Americans
329	Penalty for underpayment of estimated tax—Form 2210
330	Recordkeeping
331	How to choose a tax preparer
332	Audit appeal rights
333	Failure to pay child/spousal support
335	Withholding on interest and dividends
336	Highway use tax
337	Checklist/Common errors when preparing your tax return
338	Withholding on pensions and annuities
339	Your tax form is overdue—Let us hear from you
340	Second request for information about your tax form
341	Notice of intent to levy
342	Notice of underreported income—CP 2000

Basis of Assets, Depreciation, Sale of Assets

Topic No.	*Subject*
343	Sale of personal residence—General
344	Sale of personal residence—How to report gain
400	Sale of personal residence—Exclusion of gain, age 55 and over
401	Basis of assets
402	Depreciation—General
403	Depreciation—Accelerated cost recovery system
404	Installment sales

Employer Tax Information

Topic No.	*Subject*
406	Social security withholding rates
407	Form W-2—Where, when, and how to file
408	Form W-4—Employee's Withholding Allowance Certificate
409	Federal tax deposits—General
410	Employer identification number—How to apply
411	Paying taxes on your employees
412	Form 942—Employer's Quarterly Tax Return for Household Employees
413	Form 941—Deposit requirements
414	Form 941—Employer's Quarterly Federal Tax Return
415	Form 940—Deposit requirements
416	Form 940—Employer's Annual Federal Unemployment Tax Return
417	Targeted jobs credit
418	Tips—Withholding and reporting

Tax Information for Aliens and U.S. Citizens Living Abroad

Topic No.	*Subject*
420	Resident and nonresident aliens
425	Dual-status alien
426	Alien tax clearance
428	Foreign earned income exclusion—General
429	Foreign earned income exclusion—Who qualifies?
430	Foreign earned income exclusion—What income qualifies?
431	Foreign tax credit

The following topics are in Spanish

Topic No.	*Subject*
433	Who must file?
434	Which form to use?
435	Filing status—Single, married filing jointly, and married filing separately
436	Filing status—Head of household and qualifying widow/widower
437	Earned income credit
438	Highlights of 1985 tax changes
439	Forms and publications—How to order
440	Alien tax clearance
441	Refunds—How long they should take
442	IRS help available—Volunteer tax assistance programs, toll-free telephone, walk-in assistance, and outreach program
443	Social security and tier 1 railroad retirement taxability
444	Social Security Benefit Statement—Form SSA-1099

To Call IRS Toll-Free for Answers to Your Federal Tax Questions, Use Only the Number Listed Below for Your Area

Caution: *"Toll-free" is a telephone call for which you pay only local charges with no long-distance charge. Please use a local city number only if it is not a long-distance call for you. Otherwise, use the general toll-free number given.*

We are happy to answer questions to help you prepare your return. But you should know that you are responsible for the accuracy of your return. If we do make an error, you are still responsible for the payment of the correct tax.

To make sure that IRS employees give courteous responses and correct information to taxpayers, a second IRS employee sometimes listens in on telephone calls. No record is kept of any taxpayer's name, address, or social security number.

If you find it necessary to write instead of calling, please address your letter to your IRS District Director for a prompt reply. Make sure you include your social security number or taxpayer identifying number when you write.

The IRS has a telephone service called Tele-Tax. It provides automated refund information and recorded tax information on about 150 topics covering such areas as filing requirements, dependents, itemized deductions, and tax credits. Tele-Tax is available 24 hours a day, 7 days a week, to taxpayers using push-button (tone signalling) telephones, and Monday through Friday, during office hours, to taxpayers using push-button (pulse dial) or rotary (dial) phones. See Tele-Tax Information on pages 38 and 39 for the telephone numbers, available topics, and instructions describing how to use this service.

ALABAMA
Call 1-800-424-1040

ALASKA
Anchorage, 561-7484
Elsewhere in Alaska, call operator and ask for Zenith 3700

ARIZONA
Phoenix, 257-1233

ARKANSAS
Call 1-800-424-1040

CALIFORNIA
Please call the telephone number shown in the white pages of your local telephone directory under U.S. Government, Internal Revenue Service, Federal Tax Assistance.

COLORADO
Denver, 825-7041

CONNECTICUT
Call 1-800-424-1040

DELAWARE
Wilmington, 573-6400

DISTRICT of COLUMBIA
Call 488-3100

FLORIDA
Jacksonville, 354-1760

GEORGIA
Atlanta, 522-0050

HAWAII
Oahu, 546-8660
All other islands, 1-800-232-2511

IDAHO
Call 1-800-424-1040

ILLINOIS
Chicago, 435-1040

INDIANA
Indianapolis, 269-5477

IOWA
Des Moines, 283-0523

KANSAS
Call 1-800-424-1040

KENTUCKY
Call 1-800-424-1040

LOUISIANA
Call 1-800-424-1040

MAINE
Call 1-800-424-1040

MARYLAND
Baltimore, 962-2590
Montgomery County, 488-3100
Prince George's County, 488-3100

MASSACHUSETTS
Boston, 523-1040

MICHIGAN
Detroit, 237-0800

MINNESOTA
Minneapolis, 291-1422
St. Paul, 291-1422

MISSISSIPPI
Call 1-800-424-1040

MISSOURI
St. Louis, 342-1040

MONTANA
Call 1-800-424-1040

NEBRASKA
Omaha, 422-1500

NEVADA
Call 1-800-424-1040

NEW HAMPSHIRE
Call 1-800-424-1040

NEW JERSEY
Newark, 622-0600

NEW MEXICO
Call 1-800-424-1040

NEW YORK
Bronx, 732-0100
Brooklyn, 596-3770
Buffalo, 855-3955
Manhattan, 732-0100
Nassau, 222-1131
Queens, 596-3770
Rockland County, 997-1510
Staten Island, 732-0100
Suffolk, 724-5000
Westchester County, 997-1510

NORTH CAROLINA
Greensboro, 274-3711

NORTH DAKOTA
Call 1-800-424-1040

OHIO
Cincinnati, 621-6281
Cleveland, 522-3000

OKLAHOMA
Call 1-800-424-1040

OREGON
Eugene, 485-8286
Portland, 221-3960
Salem, 581-8721

PENNSYLVANIA
Philadelphia, 574-9900
Pittsburgh, 281-0112

PUERTO RICO
San Juan Metro Area, 753-4040
Isla DDD, 753-4549

RHODE ISLAND
Call 1-800-424-1040

SOUTH CAROLINA
Call 1-800-424-1040

SOUTH DAKOTA
Call 1-800-424-1040

TENNESSEE
Nashville, 259-4601

TEXAS
Austin, 472-1974
Corpus Christi, 888-9431
Dallas, 742-2440
El Paso, 532-6116
Ft. Worth, 263-9229
Houston, 965-0440
San Antonio, 229-1700

UTAH
Call 1-800-424-1040

VERMONT
Call 1-800-424-1040

VIRGINIA
Bailey's Crossroads, 557-9230
Richmond, 649-2361

WASHINGTON
Seattle, 442-1040

WEST VIRGINIA
Call 1-800-424-1040

WISCONSIN
Milwaukee, 271-3780

WYOMING
Call 1-800-424-1040

Note: If there is no number listed for your specific area, please call 1-800-424-1040.

Telephone Assistance Services for Deaf Taxpayers Who Have Access to TV / Telephone—TTY Equipment.

Hours of Operation

8:00 A.M. to 6:45 P.M. EST (Filing Season)

8:00 A.M. to 4:30 P.M. EST (Nonfiling Season)

Indiana residents, 1-800-382-4059

Elsewhere in U.S., including Alaska, Hawaii, Virgin Islands, and Puerto Rico, 1-800-428-4732

Toll-Free "Forms Only" Telephone Numbers

If you only need to order tax forms and publications and do not have any tax questions, please call the number listed below for your area.

ALASKA
Anchorage, 563-5313
Elsewhere in Alaska, call operator and ask for Zenith 3700

ARIZONA
Phoenix, 257-9722
Tucson, 882-0730

CALIFORNIA
Please call the telephone number shown in the white pages of your local telephone directory under U.S. Government, Internal Revenue Service, Federal Tax Assistance.

COLORADO
Denver, 825-7041

GEORGIA
Atlanta, 331-6023

HAWAII
Honolulu, 546-7300
All other islands, 1-800-232-2511

ILLINOIS
Chicago, 435-1040

INDIANA
Indianapolis, 269-5477

IOWA
Des Moines, 283-0523

MICHIGAN
Detroit, 237-0794

MINNESOTA
St. Paul, 224-7461

MISSOURI
Kansas City, 421-2330
St. Louis, 231-6505

NEBRASKA
Omaha, 221-3321

OHIO
Cincinnati, 621-6281
Cleveland, 522-3000

OREGON
Eugene, 485-8286
Portland, 221-3933
Salem, 581-8721

PUERTO RICO
San Juan Metro Area, 753-4040
Isla DDD, 753-4549

TEXAS
Austin, 472-1974
Corpus Christi, 888-9431
Dallas, 742-2440
El Paso, 532-6116
Ft. Worth, 263-9229
Houston, 965-0440
San Antonio, 229-1700

VIRGINIA
Richmond, 329-1052

WASHINGTON
Seattle, 442-5100

WISCONSIN
Milwaukee, 291-3244

Note: If there is no number listed for your state or specific area, please call **1-800-424-FORM (3676).**

Privacy Act and Paperwork Reduction Act Notice

The Privacy Act of 1974 and Paperwork Reduction Act of 1980 say that when we ask you for information we must tell you:

- Our legal right to ask for the information.
- What major purposes we have in asking for the information, and how it will be used.
- What could happen if we do not receive the information.
- Whether your response is voluntary, required to obtain a benefit, or mandatory under the law.

For the Internal Revenue Service, the laws include:

- Tax returns and any papers filed with them.
- Any questions we need to ask you so we can—

1. Complete, correct, or process your return.
2. Figure your tax.
3. Collect tax, interest, or penalties.

Our legal right to ask for information is Internal Revenue Code sections 6001 and 6011 and their regulations. They say that you must file a return or statement with us for any tax you are liable for. Your response is mandatory under these sections. Code section 6109 and its regulations say that you must show your social security number on what you file. This is so we know who you are, and can process your return and papers. You must fill in all parts of the tax form that apply to you. But you do not have to check the boxes for the Presidential Election Campaign Fund.

We ask for tax return information to carry out the Internal Revenue laws of the United States. We need it to figure and collect the right amount of tax.

We may give the information to the Department of Justice and to other Federal agencies, as provided by law. We may also give it to states, the District of Columbia, and U.S. commonwealths or possessions to carry out their tax laws. And we may give it to foreign governments because of tax treaties they have with the United States.

If you do not file a return, do not provide the information we ask for, or provide fraudulent information, the law provides that you may be charged penalties and, in certain cases, you may be subject to criminal prosecution. We may also have to disallow the exemptions, exclusions, credits, deductions, or adjustments shown on the tax return. This could make the tax higher or delay any refund. Interest may also be charged.

Please keep this notice with your records. It may help you if we ask you for other information. If you have questions about the rules for filing and giving information, please call or visit any Internal Revenue Service office.

How to get forms and publications

Generally, we mail forms directly to you based on what seems to be right for you. But if you need other forms or publications, you can call the "Forms Only" telephone numbers listed on page 40 OR you can order them from IRS by following the instructions at the bottom of page 43. Please allow 10 days to receive your order.

How to get forms

To save time, you can get the following items at many participating banks, post offices, and public libraries or order them from IRS:

Form 1040, U.S. Individual Income Tax Return
Instructions for Form 1040

Form 1040A
Instructions for Form 1040A

Form 1040EZ
Instructions for Form 1040EZ

Schedule A for itemized deductions

Schedule B for interest income if more than $400; for dividends and other distributions on stock if more than $400; or for qualified reinvested dividends from qualified public utilities; and for answering the Foreign Accounts or Foreign Trusts Questions

Schedule W for the deduction for a married couple when both work

You can photocopy the following items (as well as those listed above) at many participating public libraries or order them from IRS:

Schedule C, Profit or (Loss) From Business or Profession

Schedule D, Capital Gains and Losses and Reconciliation of Forms 1099-B

Schedule E, Supplemental Income Schedule

Schedule F, Farm Income and Expenses

Schedule G, Income Averaging

Schedule R, Credit for the Elderly and the Permanently and Totally Disabled

Schedule SE, Computation of Social Security Self-Employment Tax

Form 1040-ES, Estimated Tax for Individuals

Form 2106, Employee Business Expenses

Form 2119, Sale or Exchange of Principal Residence

Form 2210, Underpayment of Estimated Tax by Individuals

Form 2441, Credit for Child and Dependent Care Expenses

Form 3468, Computation of Investment Credit

Form 3903, Moving Expense Adjustment

Form 4136, Computation of Credit for Federal Tax on Gasoline and Special Fuels

Form 4562, Depreciation and Amortization

Form 4684, Casualties and Thefts

Form 4797, Gains and Losses From Sales or Exchanges of Assets Used in a Trade or Business and Involuntary Conversions

Form 4868, Application for Automatic Extension of Time To File U.S. Individual Income Tax Return

Form 5695, Residential Energy Credit

Form 8283, Noncash Charitable Contributions

Form 8332, Release of Claim to Exemption for Child of Divorced or Separated Parents

How to get publications

You can read or photocopy the following publications at many participating public libraries or order them from IRS:

17	Your Federal Income Tax
54	Tax Guide for U.S. Citizens and Resident Aliens Abroad
334	Tax Guide for Small Business
463	Travel, Entertainment, and Gift Expenses
501	Exemptions
502	Medical and Dental Expenses
503	Child and Dependent Care Credit, and Employment Taxes for Household Employers
504	Tax Information for Divorced or Separated Individuals
505	Tax Withholding and Estimated Tax
506	Income Averaging
508	Educational Expenses
521	Moving Expenses
523	Tax Information on Selling Your Home
524	Credit for the Elderly and the Permanently and Totally Disabled
525	Taxable and Nontaxable Income
526	Charitable Contributions
527	Rental Property
529	Miscellaneous Deductions
530	Tax Information for Owners of Homes, Condominiums, and Cooperative Apartments
531	Reporting Income From Tips
533	Self-Employment Tax
545	Interest Expense
547	Nonbusiness Disasters, Casualties, and Thefts
550	Investment Income and Expenses
552	Recordkeeping for Individuals and a List of Tax Publications
553	Highlights of 1985 Tax Changes
554	Tax Information for Older Americans
575	Pension and Annuity Income
583	Information for Business Taxpayers
587	Business Use of Your Home
590	Individual Retirement Arrangements (IRAs)
596	Earned Income Credit
903	Energy Credits for Individuals
905	Tax Information on Unemployment Compensation
907	Tax Information for Handicapped and Disabled Individuals
910	Taxpayer's Guide to IRS Information, Assistance and Publications
915	Tax Information on Social Security Benefits (and Tier 1 Railroad Retirement Benefits)

Other publications and forms referred to in the instructions are also available without cost from the "Forms Distribution Center" for your state.

Where To Send Your Order for Free Forms and Publications

Please send your order to the "Forms Distribution Center" for your state. If there is more than one Center for your state, send the order to the Center nearest you.

Alabama—Caller No. 848, Atlanta, GA 30370
Alaska—P.O. Box 12626, Fresno, CA 93778
Arizona—P.O. Box 2924, Austin, TX 78769
Arkansas—P.O. Box 6900, Florence, KY 41042
California—P.O. Box 12626, Fresno, CA 93778
Colorado—P.O. Box 2924, Austin, TX 78769
Connecticut—P.O. Box 25866, Richmond, VA 23260
Delaware—P.O. Box 25866, Richmond, VA 23260
District of Columbia—P.O. Box 25866, Richmond, VA 23260
Florida—Caller No. 848, Atlanta, GA 30370
Georgia—Caller No. 848, Atlanta, GA 30370
Hawaii—P.O. Box 12626, Fresno, CA 93778
Idaho—P.O. Box 12626, Fresno, CA 93778
Illinois—P.O. Box 338, Kansas City, MO 64141
Indiana—P.O. Box 6900, Florence, KY 41042
Iowa—P.O. Box 338, Kansas City, MO 64141
Kansas—P.O. Box 2924, Austin, TX 78769
Kentucky—P.O. Box 6900, Florence, KY 41042
Louisiana—P.O. Box 6900, Florence, KY 41042
Maine—P.O. Box 25866, Richmond, VA 23260
Maryland—P.O. Box 25866, Richmond, VA 23260
Massachusetts—P.O. Box 25866, Richmond, VA 23260
Michigan—P.O. Box 6900, Florence, KY 41042
Minnesota—P.O. Box 338, Kansas City, MO 64141
Mississippi—Caller No. 848, Atlanta, GA 30370
Missouri—P.O. Box 338, Kansas City, MO 64141
Montana—P.O. Box 338, Kansas City, MO 64141
Nebraska—P.O. Box 338, Kansas City, MO 64141
Nevada—P.O. Box 12626, Fresno, CA 93778
New Hampshire—P.O. Box 25866, Richmond, VA 23260
New Jersey—P.O. Box 25866, Richmond, VA 23260
New Mexico—P.O. Box 2924, Austin, TX 78769
New York— P.O. Box 25866, Richmond, VA 23260
North Carolina—Caller No. 848, Atlanta, GA 30370
North Dakota—P.O. Box 338, Kansas City, MO 64141
Ohio—P.O. Box 6900, Florence, KY 41042
Oklahoma—P.O. Box 2924, Austin, TX 78769
Oregon—P.O. Box 12626, Fresno, CA 93778
Pennsylvania—P.O. Box 25866, Richmond, VA 23260
Rhode Island—P.O. Box 25866, Richmond, VA 23260
South Carolina—Caller No. 848, Atlanta, GA 30370
South Dakota—P.O. Box 338, Kansas City, MO 64141
Tennessee—Caller No. 848, Atlanta, GA 30370
Texas—P.O. Box 2924, Austin, TX 78769
Utah—P.O. Box 2924, Austin, TX 78769
Vermont—P.O. Box 25866, Richmond, VA 23260
Virginia—P.O. Box 25866, Richmond, VA 23260
Washington—P.O. Box 12626, Fresno, CA 93778
West Virginia—P.O. Box 6900, Florence, KY 41042
Wisconsin—P.O. Box 338, Kansas City, MO 64141
Wyoming—P.O. Box 2924, Austin, TX 78769

Foreign Addresses—Taxpayers with mailing addresses in foreign countries should send this order blank to either: Forms Distribution Center, Caller No. 848, Atlanta, GA 30370 or Forms Distribution Center, P.O. Box 12626, Fresno, CA 93778, whichever is closer. Send letter requests for other forms and publications to: Richmond Distribution Center, P.O. Box 25866, Richmond, VA 23260.

Puerto Rico—Director's Representative, U.S. Internal Revenue Service, Federal Office Building, Chardon Street, Hato Rey, PR 00918

Virgin Islands—V.I. Bureau of Internal Revenue, P.O. Box 3186, St. Thomas, VI 00801

Order blank—The forms and publications listed here are available at no cost. Cut the order blank on the dotted line and mail it in your own envelope to the address shown above for your state. Be sure to print your name and address on the other side. Attach a separate sheet of paper listing any additional forms and publications you need that are not listed on the order blank. We will send you 2 copies of each form and 1 copy of each set of instructions or publication you ask for. To help reduce waste, order only what you need. Be sure to allow 10 days to receive your order.

Circle Desired Forms and Publications		Schedule G (1040)	2119	4562	5695	Pub. 521	Pub. 545
		Schedule R (1040)	2210	4562 Instructions	Pub. 463	Pub. 523	Pub. 552
1040	Schedules A&B (1040)	Instructions for Sch. R	2441	4684	Pub. 501	Pub. 524	Pub. 553
Instructions for 1040 & Schedules	Schedule C (1040)	Schedule SE (1040)	3468	4684 Instructions	Pub. 502	Pub. 526	Pub. 554
1040A	Schedule D (1040)	Schedule W (1040)	3468 Instructions	4797	Pub. 503	Pub. 527	Pub. 903
1040EZ	Schedule E (1040)	1040-ES (1986)	3903	4797 Instructions	Pub. 504	Pub. 529	
1040A & 1040EZ Instructions	Schedule F (1040)	2106	4136	4868	Pub. 506	Pub. 530	

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Detach At This Line

Order blank

Use your own envelope. Do not use the envelope we furnished you in your income tax package because this envelope may be used only for filing your income tax return.

Print or type your name and address on this label. It will be used to speed your order for forms to you.

Name

Number and street

City or town, state, and ZIP code

Form **1040X** (Rev. October 1985) (X)

Department of the Treasury—Internal Revenue Service

Amended U.S. Individual Income Tax Return

OMB No. 1545-0091
Expires 4-30-88

This return is for calendar year ▶ 19 , OR fiscal year ended ▶ , 19 .

Please print or type

Your first name and initial (if joint return, also give spouse's name and initial)	Last name	**Your social security number**
Present home address (number and street, including apartment number, or rural route)		**Spouse's social security number**
City, town or post office, state, and ZIP code		Telephone number (optional) ( )

Enter below name and address as shown on original return (if same as above, write "Same"). If changing from separate to joint return, enter names and addresses used on original returns. (**Note:** *You cannot change from joint to separate returns after the due date has passed.)*

a Service center where original return was filed

b Has original return for the year being changed been audited? ☐ Yes ☐ No
If "No," have you been notified that it will be? ☐ Yes ☐ No
If "Yes," identify IRS office

c Are you amending your return to include any item (loss, credit, deduction, other tax benefit, or income) relating to a tax shelter required to be registered? ☐ Yes ☐ No
If "Yes," you **MUST** attach **Form 8271,** Investor Reporting of Tax Shelter Registration Number.

d Filing status claimed. (**Note:** *You cannot change from joint to separate returns after the due date has passed.)*
On original return ▶ ☐ Single ☐ Married filing joint return ☐ Married filing separate return ☐ Head of household ☐ Qualifying widow(er)
On this return ▶ ☐ Single ☐ Married filing joint return ☐ Married filing separate return ☐ Head of household ☐ Qualifying widow(er)

	Income and Deductions		**A.** As originally reported or as adjusted (see instructions)	**B.** Net change—Increase or (Decrease)—explain on page 2	**C.** Correct amount
	1 Total income (see instructions)	1			
	2 Adjustments to income (see instructions)	2			
	3 Adjusted gross income (subtract line 2 from line 1)	3			
	4 Deductions (see instructions)	4			
	5 Subtract line 4 from line 3	5			
	6 Exemptions (see instructions)	6			
	7 Taxable income (subtract line 6 from line 5)	7			
Tax Liability	8 Tax (see instructions) (Method used in col. C ________________)	8			
	9 Credits (see instructions)	9			
	10 Subtract line 9 from line 8. Enter the result, but not less than zero	10			
	11 Other taxes (such as self-employment tax, alternative minimum tax)	11			
	12 Total tax liability (add line 10 and line 11)	12			
Payments	13 Federal income tax withheld and excess FICA and RRTA tax withheld	13			
	14 Estimated tax payments	14			
	15 Earned income credit	15			
	16 Credits for Federal tax on gasoline and special fuels, regulated investment company, etc.	16			
	17 Amount paid with Form 4868, Form 2688, or Form 2350 (application for extension of time to file)			17	
	18 Amount paid with original return, plus additional tax paid after it was filed			18	
	19 Total of lines 13 through 18, column C			19	

Refund or Amount You Owe

20 Overpayment, if any, as shown on original return (or as previously adjusted by IRS)	20	
21 Subtract line 20 from line 19 (see instructions)	21	
22 **AMOUNT YOU OWE.** If line 12, col. C, is more than line 21, enter difference. Please pay in full with this return	22	
23 **REFUND** to be received. If line 12, column C, is less than line 21, enter difference.	23	

Please Sign Here

Under penalties of perjury, I declare that I have filed an original return and that I have examined this amended return, including accompanying schedules and statements, and to the best of my knowledge and belief this amended return is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which the preparer has any knowledge.

▶ Your signature | Date | ▶ Spouse's signature (if filing jointly, BOTH must sign)

Paid Preparer's Use Only

Preparer's signature ▶	Date	Check if self-employed ☐	Preparer's social security no.
Firm's name (or yours, if self-employed) and address ▶		E.I. No.	
		ZIP code	

For Paperwork Reduction Act Notice, see page 1 of separate Instructions.

BE SURE TO COMPLETE PAGE 2

Part I Exemptions (see Form 1040 or Form 1040A Instructions)

If claiming more exemptions, complete lines 1—9.
If claiming fewer exemptions, complete lines 1—5.

		A. Number originally reported	B. Net change	C. Correct number
1 Exemptions—yourself and spouse, 65 or over, blind	1			
2 Your dependent children who lived with you	2			
3 If amending your 1985 return, your dependent children who did not live with you	3			
4 Other dependents	4			
5 Total exemptions (add lines 1 through 4)	5			
6 Multiply $1,040 ($1,000, for tax years beginning before 1985) by the total number of exemptions claimed on line 5. Enter this amount here and on page 1, line 6	6			

7 First names of your dependent children who lived with you and were not claimed on original return: **Enter number ▶** ☐

8 If amending your 1985 return, first names of your dependent children who did not live with you and were not claimed on original return (see instructions). (If pre-1985 agreement, check here ☐.) **Enter number ▶** ☐

9 Other dependents not claimed on original return:

(a) Name	(b) Relationship	(c) Number of months lived in your home	(d) Did dependent have income of $1,040 ($1,000, for tax years beginning before 1985) or more?	(e) Did you provide more than one-half of dependent's support?

Enter number ▶ ☐

Part II Explanation of Changes to Income, Deductions, and Credits

Enter the line number from page 1 for each item you are changing and give the reason for each change. Attach all supporting forms and schedules for items changed. Be sure to include your name and social security no. on any attachments.

If the change pertains to a net operating loss carryback, a general business credit carryback, or a research credit carryback, attach the schedule or form that shows the year in which the loss or credit occurred. See the instructions. Also, check here ▶ ☐

Part III Presidential Election Campaign Fund

Checking below will not increase your tax or reduce your refund.

If you did not previously want to have $1 go to the fund, but now want to . . . Check here ▶ ☐
If joint return and if spouse did not previously want to have $1 go to the fund, but now wants to . . . Check here ▶ ☐

Department of the Treasury
Internal Revenue Service

Instructions for Form 1040X

(Revised October 1985)

Amended U.S. Individual Income Tax Return

General Instructions

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Purpose of Form.—Use Form 1040X to correct **Form 1040, Form 1040A,** or **Form 1040EZ.** Also use Form 1040X to claim a refund of individual income taxes. Please note that it often takes 2 to 3 months to process Form 1040X. We will figure the interest and will either include it in your refund or bill you for it. If you are changing your Federal return, you may also have to change your state return.

Filing Form 1045.—You may use Form 1045, Application for Tentative Refund, instead of Form 1040X if:

- you are applying for a refund resulting from a net operating loss or credit carryback (other than a foreign tax credit carryback), **AND**
- less than one year has elapsed since the end of the year in which the loss or credit arose.

Carryback Claims.—You must attach copies of the following to Form 1040X if it is used as a carryback claim.

- Pages 1 and 2 of Form 1040 for the year of the loss or credit from which the carryback results.
- Any Schedules K-1 you received from any partnership, S corporation, estate, or trust for the year of the loss or credit.
- Any form or schedule from which the carryback results (such as Form 3468 or Schedule C or F).
- The forms or schedules for items refigured in the carryback year.

All information described above must be attached to your Form 1040X, if applicable, or your Form 1040X will be returned for the attachments.

Net Operating Loss.—Attach a computation of your net operating loss using Schedule A (Form 1045).

A refund based on a net operating loss should not include the refund of any self-employment tax reported on line 11 of Form 1040X. For more information, get **Publication 536,** Net Operating Losses and the At-Risk Limits.

Information on Income, Deductions, etc.—If you have questions, such as what income is taxable or what expenses are deductible, the instructions for the return you are amending may help you. Be sure to use the Tax Table or Tax Rate Schedules for the right year to figure the corrected tax. The related schedules and forms may also help you.

Death of Taxpayer.—If you are filing a claim for refund for a deceased person, write "deceased" after the deceased's name and show the date of death in the name and address space at the top of Form 1040X. Also write "**DECEASED**" across the top of Form 1040X.

If you are claiming a refund as a surviving spouse filing a joint return with the deceased spouse, also write "Filing as surviving spouse" in the area where you sign the return. If someone else is the personal representative, he or she must also sign. No other form is needed to have the refund issued to you. However, all other filers who request a refund due a deceased taxpayer must file **Form 1310,** Statement of Person Claiming Refund Due a Deceased Taxpayer, to claim the refund.

If you want more details, get **Publication 559,** Tax Information for Survivors, Executors, and Administrators.

When To File.—File Form 1040X after you file your original return. Generally, Form 1040X must be filed within 3 years after the date the original return was due or 3 years after the date you filed it, whichever was later. A Form 1040X based on a net operating loss carryback, investment credit carryback, jobs credit carryback, alcohol fuels credit carryback (or for tax years beginning after 1983, general business credit carryback), or research credit carryback generally must be filed within 3 years after the due date of the return for the tax year of the net operating loss or unused credit.

Where To File. —Please use the address for your state. Mail your return to the **Internal Revenue Service Center** for the place where you live. No street address is needed.

If you are located in: ▼	**Use this address:** ▼
Alabama, Florida, Georgia, Mississippi, South Carolina	Atlanta, GA 31101
New Jersey, New York City and counties of Nassau, Rockland, Suffolk, and Westchester	Holtsville, NY 00501
Illinois, Iowa, Missouri, Wisconsin	Kansas City, MO 64999
Delaware, District of Columbia, Maryland, Pennsylvania	Philadelphia, PA 19255
Connecticut, Maine, Massachusetts, Minnesota, New Hampshire, New York (all other counties), Rhode Island, Vermont	Andover, MA 05501
Kentucky, Michigan, Ohio, West Virginia	Cincinnati, OH 45999
Kansas, Louisiana, New Mexico, Oklahoma, Texas	Austin, TX 73301
Alaska, Arizona, California (counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo, and Yuba), Colorado, Idaho, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	Ogden, UT 84201
California (all other counties), Hawaii	Fresno, CA 93888
Arkansas, Indiana, North Carolina, Tennessee, Virginia	Memphis, TN 37501
American Samoa	Philadelphia, PA 19255
Guam	Commissioner of Revenue and Taxation Agana, GU 96910
Puerto Rico (or if excluding income under section 933) Virgin Islands: Nonpermanent residents	Philadelphia, PA 19255
Virgin Islands: Permanent residents	V.I. Bureau of Internal Revenue P.O. Box 3186 St. Thomas, VI 00801
Foreign country: U.S. citizens and those filing Form 2555 or Form 4563, even if you have an A.P.O. or F.P.O. address	Philadelphia, PA 19255
A.P.O. or F.P.O. address of:	Miami—Atlanta, GA 31101 New York—Holtsville, NY 00501 San Francisco—Fresno, CA 93888 Seattle—Ogden, UT 84201

Preparer Information.—If you fill in your own return, the Paid Preparer's space should remain blank. If someone else prepares your return and does not charge you, that person should **not** sign your return.

Generally, anyone who is paid to prepare your tax return must sign your return and fill in the other blanks in the Paid Preparer's Use Only area of your return.

If you have questions about whether a preparer is required to sign your return, please contact an IRS office.

The person required to sign your return **MUST** complete the required preparer information and:

- Sign it, by hand, in the space provided for the preparer's signature. (Signature stamps or labels are not acceptable.)
- Give you a copy of your return in addition to the copy to be filed with IRS.

Tax return preparers should be familiar with their responsibilities. They should get **Publication 1045,** Information and Order Blanks for Preparers of Federal Income Tax Returns, for more details.

Line-by-Line Instructions

Page 1

Above your name, enter the calendar year or fiscal year of the return you are amending.

Item d—Filing Status.—If you are changing from separate returns to a joint return, both of you must sign the amended return. If there is any tax due, it must be paid in full.

Column A.—Enter the amounts from your return as originally filed or as you later amended it. If your return was audited, enter the amounts that were determined as the result of the examination.

Column B.—Enter the net increase or net decrease for each line you are changing. Bracket all decreases. Explain each change on page 2, Part II, and attach any related schedule or form. For example, if you are amending your return to income average, attach **Schedule G** (Form 1040).

Column C.—Add the increase in column B to the amount in column A, or subtract the column B decrease from column A. Show the result in column C. For any item you do not change, enter the amount from column A in column C.

Note: *If you are changing only credits or other taxes, skip lines 1–7 and start with line 8. If changing only payments, skip lines 1–11 and start with line 12.*

Line 1—Total Income.—To figure this amount, add income from all sources, such as wages, interest, dividends, and net profit from business. On Form 1040, for 1982 and 1983, use line 22. For 1984 and 1985, use line 23.

On Form 1040A, for 1982–1985, use line 10.

On Form 1040EZ, for 1982–1985, use line 3.

If you are correcting wages or other employee compensation, attach the first copy or Copy B of all additional or corrected Forms W-2 that you got after you filed your original return.

Line 2—Adjustments to Income.—Enter all adjustments to income, such as the deduction for a married couple when both work, moving expense, or employee business expenses. On Form 1040, for 1982 and 1983, use lines 23–30. For 1984 and 1985, use lines 24–30. Be sure to include as an adjustment to income any write-in adjustment. For more details, see your Form 1040 instructions.

On Form 1040A, for 1982, use line 11. For 1983–1985, use lines 11 and 12.

Line 4—Deductions.—If you itemize deductions on Schedule A (Form 1040), enter on line 4 the amount, if any, of your excess itemized deductions. On Schedule A, for 1982, use line 30. For 1983, use line 28. For 1984 and 1985, use line 26.

If you do not itemize, enter zero. However, if you claim a partial deduction for charitable contributions, enter the amount of the deduction on line 4 of Form 1040X.

Note: *If you are amending your 1985 Form 1040 or Form 1040A to claim this deduction, also complete lines 34b–34e on page 2 of Form 1040, or lines 16a–16d on page 2 of Form 1040A, whichever applies, and attach that page to Form 1040X.*

If you made an entry on line 4 of the worksheet on page 12 of the Form 1040 instructions for 1982, or page 13 for 1983 through 1985, enter the amount from line 4 of the worksheet on line 4 of Form 1040X. Add lines 3 and 4 instead of subtracting, and enter the result on line 5.

Caution: *Some changes you make to income or deductions can cause other amounts to increase or decrease. For example, increasing your income may decrease your medical expense deduction. It also may increase the allowable deduction for charitable contributions or sales tax. You should refigure these items whenever you change your return.*

Line 6—Exemptions.—If you are changing your exemptions, complete the applicable lines in Part I on page 2 to figure the amounts to enter on line 6.

If you are not changing your exemptions, enter in columns A and C the amount you claimed for exemptions on your original return. On Form 1040, for 1982–1985, use line 36.

On Form 1040A, for 1982, use line 15. For 1983–1985, use line 18.

On Form 1040EZ, for 1982–1985, use line 6.

Line 8—Tax.—Enter your income tax before subtracting any credits. Show on this line the method you use in column C to figure your tax. For example, if you use the Tax Rate Schedules, write "TRS." If you use income averaging, write "Sch. G."

Figure the tax on the taxable income you reported on line 7, column C. Attach the appropriate schedules or forms. Include on line 8 any additional taxes from **Form 4970, Form 4972,** and **Form 5544.** Also, for 1982 and 1983, include any section 72 penalty tax on this line. For 1984 and 1985, include any section 72 tax in the total for line 11 of Form 1040X. The forms and instructions for the right year will help you with line 8.

Line 9—Credits.—Enter your total credits, such as the credit for the elderly and the permanently and totally disabled, or credit for child and dependent care expenses. On Form 1040, for 1982, use lines 41–48. For 1983, use lines 41–47. For 1984 and 1985, use lines 41–44, 47, and 48. For 1983–1985, include as a credit any write-in credit. For more details, see your Form 1040 instructions.

On Form 1040A, for 1982, use line 17a. For 1983–1985, use lines 21a and 21b.

Note: *For tax years beginning after 1983, the order in which you apply your tax credits against your income tax changed. For details, see your income tax instructions.*

Line 11—Other Taxes.—Include other taxes, such as tax from recapture of investment credit, alternative minimum tax, self-employment tax, or advance earned income credit payments. On Form 1040, for 1982, use lines 51–58. For 1983, use lines 50–55. For 1984 and 1985, use lines 51–55. For 1983–1985, be sure to include any write-in tax. For more details, see your Form 1040 instructions.

On Form 1040A, use advance earned income credit (EIC) payments received only.

Lines 13–17—Payments.—Enter on the applicable lines your payments and credits. On Form 1040, for 1982, use lines 60–66. For 1983–1985, use lines 57–63. Also, include the amount of any overpaid windfall profit tax on line 16 of Form 1040X and write on the dotted line "OWPT."

On Form 1040A, for 1982, use lines 17b and 17c. For 1983–1985, use lines 24a and 24b.

On Form 1040EZ, for 1982–1985, use line 8.

Line 13—Federal Income Tax Withheld, and Excess Social Security Tax and RRTA Tax Withheld.—If you change these amounts, attach the first copy or Copy B of all additional or corrected Forms W-2 that you got since you filed your original return.

Line 14.—Enter the estimated tax payments you claimed on your return. If you filed Form 1040C, include the amount you paid as the balance due with the return.

Line 18.—Enter the amount you paid on the "Balance Due" or "Amount You Owe" reported on your original return. Also include any additional tax that may have resulted if your original return was examined. **Do not include payments of interest or penalties.**

Line 20—Overpayment Shown on Original Return.—Enter the overpayment from your original return. On Form 1040A and Form 1040EZ, it is called "amount to be refunded to you" or "amount of your refund." On Form 1040 it is called "amount overpaid."

That amount must be considered in preparing Form 1040X since any refund you have not yet received from your original return will be refunded separately from any additional refund claimed on your Form 1040X. Also include in the amount on line 20 any additional overpayment of tax that may have resulted from an examination of your original return. **Do not** include any interest you received on any refund.

Lines 21–22.—**Caution:** *If line 21 is a minus figure, add it to line 12, column C, instead of subtracting. Enter the result on line 22.*

We will figure the interest due and send you a bill.

Line 23—Refund.—If you are entitled to a larger refund than you claimed on your original return, show only the additional amount due you. This will be refunded separately from the amount claimed on your original return. See the instructions for line 20.

Page 2

Part I—Exemptions

Complete lines 1–9, as they apply, if you are claiming more exemptions. Complete lines 1–6 if you are claiming fewer exemptions.

In column A, enter the number of exemptions claimed on your original return. In column B, enter any changes to exemptions claimed on your original return. Enter in column C the corrected number of exemptions you are claiming.

Line 8.—If claiming a child under the special rules for children of divorced or separated parents, you must either attach **Form 8332,** or similar statement, **OR,** check the box for pre-1985 agreements. For details, see your 1985 Form 1040 instructions for line 6d or Form 1040A instructions for line 5d.

Part III—Presidential Election Campaign Fund

You may use Form 1040X to have $1 go to the Presidential Election Campaign Fund if you (or your spouse on a joint return) did not do so on your original return. This must be done within 20 1/2 months after the original due date for filing the return. For the calendar year 1985, this period expires on December 31, 1987.

Note: *A "Yes" designation cannot be changed.*

Form **1041**
Department of the Treasury
Internal Revenue Service

U.S. Fiduciary Income Tax Return

For the calendar year 1985 or fiscal year

beginning..., 1985, and ending..., 19.......

OMB No. 1545-0092

1985

Check applicable boxes:
☐ Decedent's estate
☐ Simple trust
☐ Complex trust
☐ Grantor type trust
☐ Ancillary return
☐ Bankruptcy estate
☐ Generation-skipping trust
☐ Family estate trust
☐ Pooled income fund
☐ Final return
☐ Amended return

Name of estate or trust (Grantor type trust, see instructions)

Employer identification number

Name and title of fiduciary

Date entity created

Address of fiduciary (number and street)

City, state, and ZIP code

Nonexempt charitable and split-interest trusts check applicable boxes (See instructions):
☐ Described in section 4947(a)(1)
☐ Not treated as a private foundation
☐ Described in section 4947(a)(2)

For Paperwork Reduction Act Notice, see page 1 of the instructions.

Income

1	Dividends (enter full amount before exclusion)	1	
2	Interest income	2	
3	Partnership income or (loss) and income from another estate or trust	3	
4	Net rent or royalty income or (loss) (attach Schedule E (Form 1040))	4	
5	Net business or farm income or (loss) (attach Schedules C and F (Form 1040))	5	
6	Capital gain or (loss) (attach Schedule D (Form 1041))	6	
7	Ordinary gain or (loss) (attach Form 4797)	7	
8	Other income (state nature of income)	8	
9	**Total** income (add lines 1 through 8) ▶	9	

Deductions

10	Interest	10			
11	Taxes	11			
12	Fiduciary fees	12			
13	Charitable deduction (from Schedule A, line 11)	13			
14	Attorney, accountant, and return preparer fees	14			
15	Other deductions (attach a separate sheet listing deductions)	15			
16	**Total** (add lines 10 through 15) ▶			16	
17	Adjusted total income or (loss) (subtract line 16 from line 9)			17	
18	Income distribution deduction (from Schedule B, line 17) (see instructions) (attach Schedule K-1 (Form 1041))			18	
19	Dividend exclusion (see instructions)			19	
20	Estate tax deduction (attach computation)			20	
21	Long-term capital gain deduction from Schedule D (Form 1041) (☐ Charity—see instructions)			21	
22	Exemption			22	
23	**Total** (add lines 18 through 22) ▶			23	
24	Taxable income of fiduciary (subtract line 23 from line 17) ▶			24	

Computation of Tax

25	**Tax: a** Tax rate schedule ....; **b** Other tax................................; Total ▶	25c	
26	**Credits: a** Foreign tax................; **b** Nonconventional fuel ....; **c** Research ....; Total ▶	26d	
27	**Credits:** ☐ Form 3800 ☐ Form 3468 (see instructions) ☐ Form 5884 ☐ Form 6478	27	
28	**Total** (add lines 26d and 27) ▶	28	
29	**Balance** (subtract line 28 from line 25c)	29	
30	Recapture of investment credit (attach Form 4255)	30	
31	Alternative minimum tax (attach Form 6251)	31	
32	**Total** (add lines 29 through 31) ▶	32	
33	**Credits: a** Form 2439................; **b** Form 4136................; **c** Form 6249................; Total ▶	33d	
34	**Federal income tax: a** Previously paid ▶................; **b** Withheld ▶................; Total ▶	34c	
35	**Total** (add lines 33d and 34c) ▶	35	
36	**Balance of tax due** (subtract line 35 from line 32) (see instructions)	36	
37	Overpayment (subtract line 32 from line 35)	37	

Please Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than fiduciary) is based on all information of which preparer has any knowledge.

▶ Signature of fiduciary or officer representing fiduciary

▶ Date

Paid Preparer's Use Only

Preparer's signature ▶

Date

Check if self-employed ▶ ☐

Preparer's social security no.

Firm's name (or yours, if self-employed) and address ▶

E.I. No. ▶

ZIP code ▶

Do not complete Schedules A and B for a simple trust or a pooled income fund.

SCHEDULE A.—Charitable Deduction

(Write the name and address of each charitable organization to whom your contributions total $3,000 or more on an attached sheet.)

1	Amounts paid or permanently set aside for charitable purposes from current year's gross income	1		
2	Tax-exempt interest allocable to charitable distribution (see instructions)	2		
	(Complete lines 3 through 6 below only if gain on Schedule D (Form 1041), line 16, column (b), exceeds loss on Schedule D (Form 1041), line 15, column (b).)	▨		
3	Long-term capital gain included on line 1 (see instructions)	3		
4	Enter gain from Schedule D (Form 1041), line 16, column (b), minus loss on Schedule D (Form 1041), line 15, column (b)	4		
5	Enter gain from Schedule D (Form 1041), line 16, column (c), minus loss on Schedule D (Form 1041), line 15, column (c)	5		
6	Enter 60% of the amount on line 3, 4, or 5, whichever is the smallest	6		
7	Add line 2 and line 6.	7		
8	Balance (subtract line 7 from line 1)	8		
9	Enter the net short-term capital gain and 40% of the net long-term capital gain of the current tax year allocable to corpus, paid or permanently set aside for charitable purposes	9		
10	Amounts paid or permanently set aside for charitable purposes from gross income of a prior year (see instructions)	10		
11	Total (add lines 8, 9, and 10). Enter here and on page 1, line 13	11		

SCHEDULE B.—Income Distribution Deduction

1	Adjusted total income (enter amount from page 1, line 17) (If net loss, enter zero)			1		
2	Adjusted tax-exempt interest, (see instructions)			2		
3	Net gain shown on Schedule D (Form 1041), line 17, column (a). If net loss, enter zero			3		
4	Enter amount from Schedule A, line 9			4		
5	Enter 40% of the amount on Schedule A, line 3, 4, or 5 whichever is smallest			5		
6	Short-term capital gain included on Schedule A, line 1			6		
7	If the amount on page 1, line 6 is a capital loss enter here as a positive figure			7		
8	If the amount on page 1, line 6 is a capital gain enter here as a negative figure			8		
9	Distributable net income (combine lines 1 through 8)			9		
10	If a complex trust, amount of income for the tax year determined under the governing instrument (accounting income)	10		▨		
11	Amount of income required to be distributed currently (see instructions)			11		
12	Other amounts paid, credited, or otherwise required to be distributed (see instructions)			12		
13	Total distributions (add lines 11 and 12) (If greater than line 10, see instructions)			13		
14	Enter the total of tax-exempt income included on line 13			14		
15	Tentative income distribution deduction (subtract line 14 from line 13)			15		
16	Tentative income distribution deduction (subtract line 2 from line 9)			16		
17	Income distribution deduction (enter the smaller of line 15 or line 16 here and on page 1, line 18)			17		

Other Information

		Yes	No
1	If the fiduciary's name or address has changed enter the old information ▶		
2	Did the estate or trust receive tax-exempt income? (If "Yes," attach a computation of the allocation of expenses).		
3	Did the estate or trust receive all or any part of the earnings (salary, wages, and other compensation) of any individual by reason of a contract assignment or similar arrangement?		
4	At any time during the tax year did the estate or trust have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? (See the instructions for question 4)		
	If "Yes," write the name of the foreign country ▶	▨	▨
5	Was the estate or trust the grantor of, or transferor to, a foreign trust which existed during the current tax year, whether or not the estate or trust has any beneficial interest in it? (If "Yes," you may have to file Form 3520, 3520-A, or 926)		
6	Check this box, if this entity has filed or is required to file Form 8264, Application for Registration of a Tax Shelter ▶ ☐	▨	▨
7	Check this box, if this entity is a complex trust making the section 663(b) election ▶ ☐	▨	▨
8	Check this box, if a section 643(d)(3) election is made. (Attach Schedule D (Form 1041)) ▶ ☐	▨	▨
9	Check this box, if the decedent's estate has been open for more than two years. (See instructions) ▶ ☐	▨	▨

1985

Department of the Treasury
Internal Revenue Service

Instructions for Form 1041 and Schedules A, B, D, J and K-1

U.S. Fiduciary Income Tax Return

(Section references are to the Internal Revenue Code, unless otherwise noted.)

General Instructions

Changes You Should Note

- The tax rates that apply to the taxable income of estates or trusts have been adjusted so that inflation will not increase their taxes.
- For all tax years beginning after 1984, the fiduciary of any estate or trust is required to provide a statement to each beneficiary who receives a distribution of property or an allocation of an item of the estate. A penalty will be imposed on the fiduciary for each failure to furnish this statement to each beneficiary.
- The mailing address for some filers has changed. See "Where To File" on page 2.

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Purpose of Form.—The fiduciary uses Form 1041 to report the income of an estate or trust.

You may find additional helpful information in **Publication 559,** Tax Information for Survivors, Executors, and Administrators. Some of the estate information in that publication also applies to trusts. This publication may be ordered from the IRS Forms Distribution Center for your State listed in the instructions for **Form 1040,** U.S. Individual Income Tax Return.

Who Must File.—

1. Decedent's Estate.—The fiduciary (or one of the joint fiduciaries) must file Form 1041 for the estate of a domestic decedent that has:

(a) gross income for the tax year of $600 or more, or
(b) a beneficiary who is a nonresident alien.

2. Trust.—The fiduciary (or one of the joint fiduciaries) must file Form 1041 for a domestic trust taxable under section 641 that has:

(a) any taxable income for the tax year, or
(b) gross income of $600 or more regardless of the taxable income, or
(c) a beneficiary who is a nonresident alien.

If you are a fiduciary of a nonresident alien estate or trust, you should file **Form 1040NR,** U.S. Nonresident Alien Income Tax Return.

3. Bankruptcy Estate.—The fiduciary must file Form 1041 for the estate of an individual involved in bankruptcy proceedings under chapter 7 or 11 of Title 11 of the United States Code if the estate has gross income for the tax year of $2,700 or more. Use Form 1041 as a transmittal for Form 1040. Figure the tax for the bankruptcy estate by using the tax rate schedule for a married person filing separately and enter the tax on page 2 of Form 1040.

Definitions.—

Fiduciary.—A fiduciary is a trustee of a trust or the executor, executrix, administrator, administratrix, personal representative or person in possession of property of a decedent's estate.

Decedent's estate.—An estate of a deceased person is a taxable entity separate from the decedent. It generally continues to exist until the final distribution of the assets of the estate are made to the heirs and other beneficiaries. The income earned by the property of the estate during the period of administration or settlement must be accounted for and reported by the estate.

Simple Trust.—A trust may qualify as "simple" if the trust instrument

(1) requires that all income must be distributed currently,
(2) does not allow amounts to be paid, permanently set aside, or used in the tax year for charitable purposes, and
(3) the trust does not distribute amounts allocated to the corpus of the trust.

Income required to be distributed currently.—Income required to be distributed currently generally means income that is required to be distributed in the year it is received except as explained in regulations section 1.651(a)-2.

Complex Trust.—A complex trust is any trust that does not qualify as a simple trust as explained above.

Bankruptcy Estate.—A bankruptcy estate is a separate and distinct taxable entity from the individual debtor. It is created when an individual debtor files for bankruptcy under chapter 7 or 11 of the Bankruptcy Code. This creates a separate "estate" consisting of property that belongs to the debtor before the filing date. See **Publication 908**, Bankruptcy, for more information about an individual's bankruptcy.

Grantor Type Trust.—A grantor type trust is a legal trust under applicable state law that is not recognized as a separate taxable entity for income tax purposes because the grantor or other substantial owners have not relinquished complete dominion and control over the trust. See sections 671 through 678 for more information on the characteristics of a grantor type trust.

Family Estate Trust.—A family estate trust is also known as a family, family estate, pure, equity, equity pure, prime, or constitutional trust.

In most cases, the grantor transfers property to the trust or assigns to the trust the income for services the grantor performs. The trust instrument usually provides:

- Evidence of ownership, such as certificates of beneficial interest in the trust.
- That the grantor is a trustee and executive officer.
- That the trust pays the living expenses for the grantor and the grantor's family.
- That the corpus and undistributed income are distributed to the owners after the trust is terminated.

If the family estate trust is treated as a grantor trust, see the "Grantor Type Trust" instructions on page 2. For more information about classification as a grantor trust, see Rev. Rul. 75-257, 1975-2 C.B. 251.

Generation-Skipping Trust.—In general, this is a trust with younger generation beneficiaries who are more than one generation younger than the grantor's generation.

Pooled Income Fund.—A pooled income fund is a split-interest trust with a remainder interest for a public charity and a life income interest retained by the donor or for another person. The property is held in a pool with other pooled income fund property and does not include any tax-exempt securities. The income for a retained life interest is figured using the yearly rate of return earned by the trust. See section 642(c) and the related regulations for more information.

Decedent's Will and Trust Instrument.—You do not have to file a copy of the decedent's will or the trust instrument unless IRS requests it. If IRS requests it, file a copy (including any amendments) with the following:

1. A signed statement that, under the penalties of perjury, the copy of the will or the trust instrument is true and complete.
2. A statement naming the provisions of the will or the trust instrument that you believe determine how the income is to be split up among the estate or trust, the grantor (if applicable), and the beneficiaries.

Additional Returns You May Have To File.—You may also be required to file the following:

1. **Form 1040,** U.S. Individual Income Tax Return.
2. **Form 1040NR,** U.S. Nonresident Alien Income Tax Return.
3. **Form 1041-A,** U.S. Information Return—Trust Accumulation of Charitable Amounts.
4. **Form 56,** Notice Concerning Fiduciary Relationship.
5. **Form 706,** United States Estate Tax Return, or **Form 706NA,** United States Estate Tax Return, Estate of Nonresident Not a Citizen of the United States.
6. **Form 1098,** Mortgage Interest Statement.
7. **Form 1099-DIV,** Statement for Recipients of Dividends and Distributions, **Form 1099-INT,** Statement for Recipients of Interest Income, **Form 1099-MISC,** Statement for Recipients of Miscellaneous Income, and **Form 1099-B,** Proceeds from Broker and Barter Exchange, unless excepted from filing by regulations.

Note: *The above 1099 forms do not have to be filed if it would result in the duplication of income information required to be reported on Schedule K-1 of Form 1041.*

8. **Form 8300,** Report of Cash Payments over $10,000 received in a trade or business. See **Publication 916,** Information Returns, for more information.

For more information on filing requirements, see Publication 559.

For information on Federal estate tax, see **Publication 448,** Federal Estate and Gift Taxes.

Period Covered by the Return.—File Form 1041 for the calendar year 1985 or the fiscal year beginning in 1985. If you do not file for a calendar year, fill in the tax year space at the top of the form. The moment of death determines the end of the decedent's tax year and the beginning of the estate's tax year. The first tax year for the estate may be any period of 12 months or less that ends on the last day of a month. For more information, see Publication 559, and **Publication 538,** Accounting Periods and Methods.

When To File.—File Form 1041 by the 15th day of the 4th month following the close of the tax year of the estate or trust. For example, file Form 1041 by October 15, 1985, for an estate or trust that has a tax year that ends on June 30, 1985. You may use **Form 2758,** Application for Extension of Time to File U.S. Partnership, Fiduciary, and Certain Exempt Organization Returns, to apply for an extension of time to file.

Where To File.—*Except for charitable and split-interest trusts and pooled income funds:*

If you are located in ▼	**Please mail to the following Internal Revenue Service Center** ▼
New Jersey, New York City, and counties of Nassau, Rockland, Suffolk, and Westchester	Holtsville, NY 00501
New York (all other counties), Connecticut, Maine, Minnesota, Massachusetts, New Hampshire, Rhode Island, Vermont	Andover, MA 05501
Alabama, Florida, Georgia, Mississippi, South Carolina	Atlanta, GA 31101
Kentucky, Michigan, Ohio, West Virginia	Cincinnati, OH 45999
Kansas, Louisiana, New Mexico, Oklahoma, Texas	Austin, TX 73301
Alaska, Arizona, California (counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo and Yuba), Colorado, Idaho, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	Ogden, UT 84201
Illinois, Iowa, Missouri, Wisconsin	Kansas City, MO 64999
California (all other counties), Hawaii	Fresno, CA 93888
Arkansas, Indiana, North Carolina, Tennessee, Virginia	Memphis, TN 37501
Delaware, District of Columbia, Maryland, Pennsylvania, outside the United States	Philadelphia, PA 19255

For a charitable or split-interest trust described in section 4947(a) and a pooled income fund defined in section 642(c)(5):

If you are located in ▼	**Please mail to the following Internal Revenue Service Center** ▼
Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee	Atlanta, GA 31101
Arizona, Colorado, Kansas, New Mexico, Oklahoma, Texas, Utah, Wyoming	Austin, TX 73301
Indiana, Kentucky, Michigan, Ohio, West Virginia	Cincinnati, OH 45999
California, Hawaii, Nevada	Fresno, CA 93888
Connecticut, Delaware, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania (ZIP codes beginning with 169-171 and 173-196 only), Rhode Island, Vermont	Holtsville, NY 00501
Illinois, Iowa, Minnesota, Missouri, Montana, Nebraska, North Dakota, South Dakota, Wisconsin	Kansas City, MO 64999
Alaska, Idaho, Oregon, Washington	Ogden, UT 84201
Maryland, Pennsylvania (ZIP codes beginning with 150-168 and 172 only), Virginia, District of Columbia, any U.S. possession, or foreign country	Philadelphia, PA 19255

At Risk Loss Limitations.— Generally, the amount the estate or trust has "at risk" limits the loss you can deduct for any tax year. Use **Form 6198,** Computation of Deductible Loss From an Activity Described in Section 465(c), to figure the deductible loss for the year and file it with Form 1041. For more information, see Publication 559 and **Publication 536,** Net Operating Losses and the At-Risk Limits.

Special Rule for Blind Trust.—If you are reporting income from a qualified blind trust (under the Ethics in Government Act of 1978), do not identify the payer of any income to the trust but complete the rest of the return as provided in the instructions. Also write "Blind Trust" at the top of page 1.

Penalties and Interest.—

1. Interest. Interest will be charged on taxes not paid by their due date, even if an extension of time to file is granted.

Interest is also charged on any additions to tax imposed by sections 6651(a)(1), 6659 or 6661 from the due date of the return (including any extensions) to the date the addition to tax was paid.

2. Late Filing of Return. The law provides a penalty of 5% of the tax due for each month, or part of a month, that the return is late (maximum 25%) unless you can show reasonable cause for the delay. If you file a return late, attach a full explanation to your return. If your return is more than 60 days late, the penalty will not be less than $100 or 100% of the balance of tax due on your return, whichever is less.

3. Late Payment of Tax. The penalty for not paying tax when due is ½ of 1% of the unpaid amount for each month or part of a month it remains unpaid. The maximum penalty is 25% of the unpaid amount. The penalty applies to any unpaid tax shown on a return. A similar penalty applies to any additional tax shown on a bill that is not paid within 10 days after the date of the bill. Any penalty is in addition to interest charges on late payments.

Note: *If you include interest or either of these penalties with your payment, identify and enter these amounts in the bottom margin of Form 1041, page 1. Do not include the interest or penalty amounts in balance of tax due on line 36.*

4. Penalty for Failure To Supply Schedule K-1. The fiduciary is required to provide Schedule K-1 (Form 1041) to each beneficiary who receives a distribution of property or an allocation of an item of the estate. Under section 6678, a penalty of $50 (not to exceed $50,000 for any calendar year) will be imposed on the fiduciary for each failure to furnish Schedule K-1 to each beneficiary unless reasonable cause for each failure is established.

5. Other Penalties. There are also other penalties that can be imposed for negligence and substantial underpayment of tax. See **Publication 17,** Your Federal Income Tax, for details on these penalties.

Unresolved Tax Problems.—IRS has a Problem Resolution Program for taxpayers who have been unable to resolve their problems with IRS. If you have a tax problem you have been unable to resolve through normal channels, write to your local IRS District Director, or call your local IRS office and ask for Problem Resolution assistance.

The Problem Resolution Office will take responsibility for your problem and ensure that it receives proper attention. Although this office cannot change the tax law or technical decisions, it can frequently clear up misunderstandings that resulted from previous contacts.

Specific Instructions

Employer Identification Number (EIN).—Use **Form SS-4,** Application for Employer Identification Number, to apply for the EIN for the estate or trust. You may get this form from IRS or the Social Security Administration. A separate employer identification number is required for the estate and for each trust. See **Publication 583,** Information for Business Taxpayers, for more information.

Date Entity Created.—Enter the date the trust was created, or, if an estate, the date of the decedent's death.

Identification Area

Please copy the exact name of the estate or trust from the **Form SS-4,** Application for Employer Identification Number, that you used to apply for the number.

Fill in the information called for at the top of the form and check the box or boxes that apply. See the Definition section on page 1 for descriptions of the type of trusts and estates.

Special filing requirements apply to bankruptcy estates and certain trusts. These requirements are described below.

Decedent's Estate.—Check this box if you are filing for the estate of a domestic decedent.

Note: *When reporting interest or dividend income on Form 1041, for the first year of the decedent's estate, and on the final income tax return, Forms 1099DIV and 1099INT issued in the name of the decedent may reflect earnings for the entire year. The fiduciary, when preparing the final income tax return of the decedent should indicate on Schedule B, Form 1040 or 1040A, that the balance of any interest or dividend income is reported on Form 1041. Also the name and address of the fiduciary return, Form 1041, should be shown.*

Grantor Type Trust.—Check this box if you are filing for a trust that is treated as totally or partly owned by the grantor or another person.

Report on Form 1041 the part of the income that is taxable to the trust. Do not report on Form 1041 the income that is taxable to the grantor or another person. Instead, attach a separate sheet to report the following:

- The income of the trust that is taxable to the grantor or another person under sections 671 through 678.
- The name, identifying number, and address of the person(s) to whom the income is taxable.
- Any deductions or credits applied to this income.

On page 1 at the top of Form 1041, write the name, identification number, and address of the grantor(s) or other person(s) in parentheses after the name of the trust.

The income taxable to the grantor or another person under sections 671 through 678 and the deductions and credits applied to the income must be reported on the income tax return that person files.

Special rules apply to certain revocable trusts that are located in the United States and that have all assets located in the United States if:

- The same individual is both grantor and trustee (or co-trustee) of the trust; and
- The individual is treated as owner of all trust assets for the tax year under section 676 (power to revoke).

These rules also apply to certain other revocable trusts in which:

- A husband and wife are the sole grantors;
- One spouse is trustee or co-trustee with a third party or both spouses are trustees or co-trustees with a third party;
- One or both spouses are treated as owners of all trust assets for the tax year under section 676 (power to revoke); and
- The husband and wife file a joint income tax return for the tax year .

Simplified Filing Requirement.—The grantor/trustee for a trust described above that was created in a tax year beginning on or after January 1, 1981, should not file Form 1041 and therefore will not need an employer identification number for the trust. The grantor/trustee must furnish his or her social security number to payers of income and report all items of income, deduction, and credit from the trust on his or her Form 1040.

Grantor Trusts Created in Tax Years Beginning Before 1/1/81.—The grantor/trustee for a trust described above who has previously filed Form 1041 and who wants to take advantage of the simplified reporting requirements in the future should file a Form 1041 for the current year and write on it "pursuant to section 1.671-4(b), this is the final return for this grantor trust." A grantor/trustee who chooses this option must furnish his or her social security number to payers of income for the next year and report the trust income on his or her Form 1040 for the next tax year and for future years. The grantor/trustee must not file Form 1041 for future years.

Ancillary Return.—If you (as fiduciary) are filing an ancillary return (one for property in a state other than that of the decedent's permanent home), check the ancillary return box. The return must include the name and address of the domiciliary representative (the one representing the estate in the decedent's permanent home state). The ancillary return must include the gross income received by the ancillary representative and the deductions claimed against that income. Mail the ancillary return to the IRS Service Center serving the state where the ancillary representative is located. The domiciliary return must include all income received by the estate, including the income received by the ancillary representative. For more information, see Publication 559.

Bankruptcy Estate.—Check this box if you are filing for the estate of an individual involved in bankruptcy proceedings. Remember to figure the tax on Form 1040 and to attach it to Form 1041, complete the identification area at the top of Form 1041, enter any tax due, and sign and date the Form 1041.

Pooled Income Fund.—Check this box if you are filing for a pooled income fund. You must attach a statement to support the following:

- The calculation of the yearly rate of return. (See regulations section 1.642(c)-6(c) for the calculation rules.)
- The computation of the deduction for distributions to the beneficiaries.
- The computation of any charitable deduction.

You do not have to complete Schedule A (Form 1041) or Schedule B (Form 1041).

If the fund has accumulations of income, file **Form 1041-A**, U.S. Information Return-Trust Accumulation of Charitable Amounts, unless the fund is required to distribute all its net income to beneficiaries currently.

You must also file **Form 5227**, Split-Interest Trust Information Return.

Final Return.—Check this box if this is a final return because the estate or trust has terminated.

On the final return neither an estate nor simple trust is allowed an exemption. If there are unused loss carryovers or excess deductions on the final return, see "Unused Loss Carryover" and "Excess Deductions" on page 12. Figure the deductions on an attached sheet.

Do not complete Schedule B (Form 1041).

Amended Return.—Check this box if this return amends a previously filed return. See section 6402 for more information.

Nonexempt Charitable and Split-Interest Trust.—Check the first box if the trust is a nonexempt charitable trust described in section 4947(a)(1). Check the second box if the trust is not treated as a private foundation as explained in regulations sections 53.4947-1 and 53.4947-2. Check the third box if the trust is a nonexempt split-interest trust described in section 4947(a)(2).

If the trust is treated as a private foundation, see regulations sections 53.4947-1 and 53.4947-2 for private foundation rules that apply to charitable and split-interest trusts. You must file **Form 990-PF**, Return of Private Foundation, if the charitable trust is treated as a private foundation. You may also have to file **Form 4720,** Return of Certain Excise Taxes on Charities and Other Persons Under Chapters 41 and 42 of the Internal Revenue Code. *Do not deduct on Form 1041 any private foundation taxes paid.*

If the nonexempt charitable trust is a private foundation that owes no income tax, it may file Form 990-PF to satisfy its Form 1041 filing requirements.

A nonexempt charitable trust not treated as a private foundation must file **Form 990**, Return of Organization Exempt from Income Tax, and **Schedule A (Form 990)**, Organization Exempt Under 501(c)(3), if its gross receipts are normally more than $25,000. If the trust owes no income tax, it may satisfy its Form 1041 filing requirement by filing Form 990.

Split-interest trusts must file **Form 5227**, Split-Interest Trust Information Return, and are also required to file Form 1041-A if they are not required to distribute all of their net income currently to beneficiaries.

Nonexempt charitable trusts do not have to file either Form 5227 or Form 1041-A.

Line By Line Instructions

The instructions below are numbered to correspond to the line items on Form 1041.

Rounding off to whole-dollar amounts.—You may show the money items on the return and accompanying schedules as whole-dollar amounts. To do so, drop any amount less than 50 cents and increase any amount from 50 cents through 99 cents to the next higher dollar.

Rule of 78's Not an Acceptable Method of Figuring Interest.—Taxpayers are reminded that generally the Rule of 78's is not an acceptable method for computing interest income and expense. Anyone using the Rule of 78's should see Revenue Procedures 84-28, 84-29, and 84-30 (1984-1 C.B., 475, 480 and 482 respectively) to change his or her method.

Income

Line 1. Dividends.—Enter the total of all taxable dividends before exclusion.

Line 2. Interest income.—Enter the total of all taxable interest including any original issue discount bonds as explained in **Publication 550,** Investment Income and Expenses.

Line 3. Partnership income or loss AND income from another estate or trust.—Enter on line 3 all income or losses from partnerships, other estates, or trusts except the following:

(a) Dividends (enter on line 1).

(b) Capital gain or (loss) (enter on **Schedule D (Form 1041))**.

(c) Ordinary gain or loss (enter on **Form 4797**, Gains and Losses From Sales or Exchanges of Assets Used in a Trade or Business and Involuntary Conversions).

Write the name of the partnership, other estate, or trust and the employer identification number on line 3. If the amount entered on line 3 is from more than one source, then list the names and numbers and also identify the amount from each source on an attached sheet.

Line 4. Rent or royalty income.—Enter the net rent and royalty income or loss on line 4. Attach **Schedule E (Form 1040)**, Supplemental Income Schedule.

For a trust, divide the deductions for amortization, depreciation, and depletion between the fiduciary and the beneficiaries as specified in the trust instrument. If the trust instrument does not so specify, divide the deductions on the same basis as the trust instrument provides for dividing the income between the fiduciary and the beneficiaries.

For an estate, divide the deductions for amortization, depreciation, and depletion between the estate and the beneficiaries in the same way the estate income is allocated to each. See Publication 559 and regulations sections 1.642(e)-1, 1.167(f)-1, 1.167(h)-1, and 1.611-1(c) for more information about the division of these deductions.

Attach **Form 4562**, Depreciation and Amortization, to explain the depreciation and a computation to explain the depletion. See the instructions for line 10 for the limitation on excess investment interest expense.

Line 5. Net business and farm income or loss.—Enter the net profit or loss from business and farming during the tax year. Attach **Schedule C (Form 1040)**, Profit or Loss from Business or Profession, to report the business income and use Schedule K-1 (Form 1041) to report the beneficiary's share. Attach **Schedule F (Form 1040)**, Farm Income and Expenses, to report the farm income and use Schedule K-1 (Form 1041) to report the beneficiary's share. Complete all information on Schedules C and F (Form 1040) that applies to the estate or trust.

See the instructions for line 4 for more information on dividing the deductions between the fiduciary and the beneficiaries.

Line 6. Capital gain or loss.—Enter from Schedule D (Form 1041) the gain or loss from the sale or exchange of capital assets.

Line 7. Ordinary gain or loss.—Enter from Form 4797 the gain or loss from the sale or exchange of property other than capital assets and also from involuntary conversions (other than casualty or theft). For more information, see the instructions for Form 4797.

Line 8. Other income.—Enter the total taxable income not reportable elsewhere on page 1. State the nature of the income. Attach a separate sheet if necessary.

Report on line 8 wages and salaries received by the decedent's estate that are income in respect of a decedent. See Publication 559 for more information.

If the estate or trust is a shareholder of an S corporation, state the name and EIN of the corporation, and report as ordinary income or loss on line 8 its share of aggregate income or loss that is ordinary income. Report capital gain income, dividend income, etc., on other appropriate lines.

Also report on line 8 any part of a total distribution shown on **Form 1099-R**, Statement for Recipients of Total Distributions from Profit-Sharing, Retirement Plans and Individual Retirement Arrangements, that is treated as ordinary income. For more information, see the separate instructions for **Form 4972**, Special 10-Year Averaging Method, and **Form 5544**, Multiple Recipient Special 10-Year Averaging Method.

In certain situations, you must report as income on line 8 any credit or refund you received in 1985 for an overpayment of windfall profit tax for 1984, due to overwithholding or the net income limitation. In general, the credit or refund you received is income to the extent you deducted windfall profit tax withheld in 1984 on Form 1041 and received a tax benefit for the deduction on your 1984 Form 1041.

Deductions

Allocation of deductions for tax-exempt income.—All deductions entered on lines 10 to 15 must include only the fiduciary's deductions related to taxable income. If the estate or trust has tax-exempt income the amount included on lines 10 to 15 must be reduced by the allocable portion attributed to tax-exempt income. The allocable amounts to be included on lines 10 to 15 are determined as follows:

- *Percentage of tax-exempt income to gross income.*—Divide the total tax-exempt income received by the total of all items of gross income (including tax-exempt income) included in distributable net income.
- *Excludible amount of each specific deduction.*—Multiply the percentage of tax-exempt income by each specific deduction.
- *Amount deductible on lines 10 to 15.*—Subtract the excludable amount of each specific deduction from the specific deduction and enter the balance on the appropriate line. For more information, see Publications 550 and 559.

Deductions that may be allowable for estate tax purposes.—Administration expenses and losses deductible on Form 706 may be deducted instead on Form 1041 if the fiduciary files a statement waiving the right to deduct the expenses and losses on Form 706. The statement must be filed before the expiration of the statutory period of limitations applicable to the tax year for which the deduction is claimed. *You cannot deduct on Form 1041 a decedent's medical and dental expenses that are paid by the fiduciary.* See Publication 559 for more information.

Generally an accrual basis taxpayer can deduct accrued expenses in the tax year that all events have occurred that determine the liability and the amount of the liability can be figured with reasonable accuracy. However, all the events that establish liability are treated as occurring only when economic performance takes place. There are exceptions for recurring items. See section 461(h).

Line 10. Interest.—Enter any deductible interest paid or accrued that is not deductible elsewhere on Form 1041. Do not include interest on a debt that was incurred or continued in order to buy or carry obligations that yield tax-exempt interest. If unpaid interest is due related persons, see **Publication 545**, Interest Expense.

For a trust, the interest deduction for investment property is limited if the investment interest expense is more than the investment income as figured using the special rules in the instructions for **Form 4952,** Investment Interest Expense Deduction.

For an estate, the interest deduction for investment property may be limited if the investment interest is more than $10,000. Use Form 4952 to figure the deduction.

If the allowable part of the excess investment interest expense is deductible, write "Form 4952 attached" on line 10. Then add the deductible interest figured on Form 4952 to the other types of deductible interest and enter the total on line 10.

Note: *See section 1277 for rules on the deferral of the interest deduction that is allocable to accrued market discount on bonds acquired after July 18, 1984, and section 1282 for rules on the deferral of the interest deduction that is allocable to the accrued discount on certain short-term obligations acquired after July 18, 1984.*

Line 11. Taxes.—Enter any deductible taxes paid or accrued during the tax year that are not deductible elsewhere on Form 1041.

Deductible taxes include:

- State or local income or real property tax.
- The windfall profit tax imposed by section 4986. Generally, the first purchaser of the crude oil will notify you on **Form 6248**, Annual Information Return of Windfall Profit Tax, of the amount of windfall profit tax withheld during the calendar year.

Line 12. Fiduciary fees.—Enter the total deductible fees paid to the fiduciary for administering the estate or trust during the tax year.

Line 13. Charitable deduction.—Enter the total from Schedule A (Form 1041) line 11.

Line 14. Attorney, accountant, and return preparer fees.—Enter the total deductible attorney, accountant, and return preparer fees paid for the estate or trust during the tax year.

Line 15. Other deductions.—Attach a separate sheet listing all authorized deductions that are not deductible elsewhere on Form 1041. Enter the total on line 15.

Nontrade or nonbusiness and nonfarm expenses.—Include the following expenses:

- For the production or collection of taxable income.
- For the management, conservation, or maintenance of property held for the production of taxable income.
- In connection with the determination, collection, or refund of any tax.

Include on Schedule D (Form 1041) as losses on capital assets any losses on worthless bonds and similar obligations and nonbusiness bad debts.

See **Publication 529**, Miscellaneous Deductions, for more information on expenses of producing income.

Bond premium(s).—The rules for amortizing bond premiums are different for taxable bonds and tax-exempt bonds.

For taxable bonds:

- You may elect to amortize the premium.
- Only the fiduciary may make the election for the estate or trust.
- The basis must be reduced if you elect to amortize.

For tax-exempt bonds:

- You must amortize the premium.
- You may not deduct the amortization of premium from income.
- The basis must be reduced by the amortization of the premium.

For more information, see Publication 550.

If you claim a bond premium deduction for the estate or trust, figure the deduction on a separate sheet and attach it to this return.

Casualty and theft losses.—Use **Form 4684**, Casualties and Thefts, to report casualty and theft losses.

If you have (a) any sales, exchanges, or involuntary conversions (other than casualty or theft) of property used in a trade or business and (b) involuntary conversions (other than casualty or theft) of certain capital assets, use Form 4797.

Net operating loss deduction.—You may claim a net operating loss figured in the same way as for an individual, except that you must exclude the income and deductions attributable to the grantor under sections 671 through 678 and you may not deduct any distributions to beneficiaries or charitable contributions. For more information, see Publication 536 and **Form 1045,** Application for Tentative Refund. If you claim a net operating loss deduction for the estate or trust, figure the deduction on a separate sheet and attach it to this return.

Fiduciary's share of amortization, depreciation, and depletion not claimed elsewhere.—If you cannot deduct the amortization, depreciation, and depletion as rent or royalty expenses on Schedule E (Form 1040) or as business or farm expenses on Schedules C and F (Form 1040), itemize the fiduciary's share of the deductions on an attached sheet. Then include them on line 15. Itemize each beneficiary's share of the deductions on Schedule K-1 (Form 1041) lines 4c and d. See the instructions for line 4 for more information including the rules for dividing the deductions between the fiduciary and the beneficiaries.

See **Publication 535**, Business Expenses, and regulations section 1.642(f)-1 for more information.

Restricted deductions.— For the special rules on real property construction period interest and taxes for trade or business and activities conducted for profit, see Publication 535.

For information on unpaid expenses due related persons, see Publication 550.

For the limit on deductions involving business use of a home and rental of a vacation home, see **Publication 530**, Tax Information for Homeowners.

For the rules on the tax year for which a deduction is claimed including the limit for expenses paid in advance, see Publication 538.

For the limit on deductions for certain farming syndicates, see Publication 535.

Line 18. Income distribution deduction.—If this trust was identified as a trust other than a "Simple Trust" or "Pooled Income Fund" on page 1, Form 1041, complete Schedule B on page 2. However, if line 17 is equal to or less than zero and no distributions were actually made or available on demand to the beneficiaries in the tax year, then do not complete Schedule B.

Special Rules for Simple Trust

Do not complete Schedules A and B for a simple trust.

Simple Trust Without Capital Gains or Losses.—*(a) Reporting Income and Deductions.*—Complete lines 1 through 17 according to their instructions.

(b) Determining Taxable Income and Tax.—If the amount shown on line 17 is not more than the amount of income required to be distributed currently (minus the tax-exempt income reduced by the allocable expense) enter on line 18 the amount shown on line 17, skip lines 19–23, and enter zero on line 24. Then complete the rest of page 1 and the "Other Information" section on page 2.

If the amount shown on line 17 is more than the amount of income required to be distributed currently (minus the tax-exempt income reduced by the allocable expense), enter on line 18 the amount of income required to be distributed currently (minus the tax-exempt income reduced by the allocable expense) and complete the rest of page 1 and the "Other Information" part on page 2.

Simple Trust With Capital Gains or Losses.—Report capital gains and losses on Schedule D (Form 1041).

If all capital gains are allocable to corpus, enter on line 18 the income (minus the tax-exempt income reduced by the allocable expense), other than capital gains, required to be distributed currently.

If all capital gains are allocable to income, enter on line 18 the income (minus the tax-exempt income reduced by the allocable expense), including capital gains, required to be distributed currently.

If line 6 shows a loss, the loss cannot be carried forward to Schedule K-1 (Form 1041). Enter on line 18 the income required to be distributed currently without reduction for capital losses.

If line 7 shows a loss, treat the loss as a deduction in figuring income required to be distributed currently.

For treatment of capital gain dividends and undistributed capital gains of regulated investment companies, see Schedule D (Form 1041) Instructions.

Exclude from line 18 and from Schedule K-1 (Form 1041):

- extraordinary dividends, or
- taxable stock dividends

not paid or credited to any beneficiary because they are allocated to corpus under the governing instrument and local law. Attach an explanatory statement.

Cemetery perpetual care fund.—On line 18, deduct the amount, not more than $5 per gravesite, paid for maintenance of cemetery property. Write the number of gravesites to the right of the entry space for line 18. Also write "Section 642(i) trust" in parentheses after the trust's name at the top of Form 1041. You do not have to file Schedules B (Form 1041) and K-1 (Form 1041).

Line 19. Dividend exclusion.— You may exclude up to $100 of income from qualified dividends from domestic corporations. However, if any dividends are distributable to the beneficiaries, this exclusion must be reduced by $100 times the percentage of the total dividends that are distributable. For example, if half of the dividends are distributed, the dividend exclusion is only $50.

This exclusion does not apply to dividends received from the following:

- Distributions from employee stock ownership plans.
- Exempt organizations (charitable, fraternal, etc.) and farmers' cooperative organizations.
- Regulated investment companies, unless the company designates that the dividends qualify for the exclusion.
- Real estate investment trusts unless the trust designates that the dividends qualify for the exclusion.

Line 20. Estate tax deduction.—See Publication 559 and section 691(c) and related regulations for information on how to figure the estate tax deduction. The section 691(c) regulations also have examples of how to figure the deduction. Figure the deduction on a separate sheet. Attach the sheet to your return. Enter the fiduciary's share on line 20.

Line 21. Long-term capital gain deduction.—Enter the long-term capital gain deduction from Schedule D (Form 1041). If all of the capital gain deduction is attributable to amounts paid or permanently set aside for a charitable purpose, check the box for charity to indicate that it is not a tax preference item.

Line 22. Exemption.—The amount of the exemption deduction depends on either the language in the governing trust instrument or whether a decedent's estate has been created. The applicable exemption amount included on line 22 must be excluded in determining the NOLs and excess deduction amounts.

Note: *No exemption is allowed on the final return of an estate or simple trust.*

Estate.—The estate of a decedent is entitled to a $600 deduction.

Trust.—Any trust that is required by its governing trust instrument to distribute currently all its income is entitled to a $300 deduction. The $300 deduction is allowed regardless of whether the trust is a simple or complex trust.

Any trust that is not required by its governing instrument to distribute currently all its income is entitled to a $100 deduction. Generally, complex trusts will be entitled to the $100 deduction.

Bankruptcy estate.—Bankruptcy estates are not entitled to an exemption deduction.

See Publication 559 and regulations section 1.642(b)-1 for exceptions and for more information including a change in accounting period.

Line 25a. Tax rate schedule.—For tax years beginning in 1985, figure the tax using the tax rate schedule below. Enter the tax on line 25a.

Tax Rate Schedule

If the amount on line 24 is:			
Over—	But not over—	Enter on line 25a:	of the amount over—
$0	1,090	............11%	$0
1,090	2,185	119.90 + 12%	1,090
2,185	4,425	251.30 + 14%	2,185
4,425	6,555	564.90 + 16%	4,425
6,555	8,740	905.70 + 18%	6,555
8,740	11,030	1,299.00 + 22%	8,740
11,030	13,790	1,802.80 + 25%	11,030
13,790	16,545	2,492.80 + 28%	13,790
16,545	22,065	3,264.20 + 33%	16,545
22,065	29,455	5,085.80 + 38%	22,065
29,455	42,775	7,894.00 + 42%	29,455
42,775	55,160	13,488.40 + 45%	42,775
55,160	82,740	19,061.65 + 49%	55,160
82,740	....	32,575.85 + 50%	82,740

Line 25b. Other tax.—Include on line 25b any partial tax from the following and attach each form to the return. If there is more than one, list on a separate sheet:

- **Form 4970,** Tax on Accumulation Distribution of Trusts.
- **Form 4972**, Special 10-Year Averaging Method.
- **Form 5544**, Multiple Recipient Special 10-Year Averaging Method.
- Section 644 tax on trusts.

If the trust sells or exchanges property at a gain within 2 years after receiving it from a transferor, a section 644 tax may be due. The tax may be due if both (i) and (ii) below apply:

(i) There is an includible gain recognized by the trust; and

(ii) At the time the trust received the property, the property had a fair market value higher than its adjusted basis.

The trustee is authorized by section 6103(e)(1)(A)(ii) to inspect the transferor's income tax return to the extent necessary to figure the section 644 tax if the transferor refuses to make a disclosure to the trustee.

Includible gain is the smaller of (i) or (ii) below:

(i) The gain recognized by the trust on the sale or exchange of the property; or

(ii) The amount by which the fair market value of the property at the time of the initial transfer to the trust exceeds the adjusted basis of the property immediately after the transfer.

Figure the tax on the gain by subtracting the transferor's actual tax for the tax year of the sale or exchange from the transferor's tax for the year of the sale or exchange refigured to include the recognized gain minus any deductions allocable to the gain.

See section 644 for additional information, including character rules, special rules, exceptions, installment sale rules, and the interest on the tax if the transferor and the trust have different tax years.

If the section 644 tax is the only partial tax due, enter the amount of the tax on line 25b and write "section 644 tax" to the right of the amount column on line 25c. If there is more than one partial tax, include the amount of the section 644 tax in the total tax entered on line 25b. Attach the section 644 tax computation to the return. Do not include the section 644 gain in the trust's taxable income.

Line 26a. Fiduciary's share of foreign tax credit.—Attach **Form 1116**, Computation of Foreign Tax Credit—Individual, Fiduciary, or Nonresident Alien Individual, if you elect to claim credit for income or profits taxes paid or accrued to a foreign country or a U.S. possession. You may claim credit for that part of the foreign taxes not allocable to the beneficiaries (including charitable beneficiaries). Enter the credit on line 26a. See Publication 559 for information about allocation to beneficiaries. See **Publication 514,** Foreign Tax Credit for U.S. Citizens and Resident Aliens, for more information about the foreign tax credit.

Line 26b. Credit for producing fuel from a nonconventional source.—If you claim any section 29 credit for producing fuel from a nonconventional source, figure the credit on a separate sheet. Write "section 29 computation" on the separate sheet and attach it to the return.

Line 26c. Credit for increasing research activities.—Figure the credit allocable to the fiduciary on an attached **Form 6765,** Credit for Increasing Research Activities (or for claiming the orphan drug credit).

Line 27. General business tax credits.—Check the appropriate box for the type of credit you are claiming and enter the amount of the credit on line 27. You should check the box for **Form 3800,** General Business Credit, if you are claiming more than one of the credits listed below or if you carryover or carryback the general business credit:

- Fiduciary's share of investment credit. Figure the investment credit allocable to the fiduciary on an attached **Form 3468,** Computation of Investment Credit. See **Publication 572**, Investment Credit, for additional information on Form 3468.
- Fiduciary's share of jobs credit and WIN credit carryover. Figure the credit allocable to the fiduciary on an attached Form 5884. See Publication 906 .
- Fiduciary's share of credit for alcohol used as fuel. Figure the credit allocable to the fiduciary on an attached **Form 6478**, Credit for Alcohol Used as Fuel. Also report the alcohol fuel tax credit on line 8, Other Income.

Line 30. Recapture of investment credit.—Figure the increase in tax allocable to the fiduciary on an attached **Form 4255,** Recapture of Investment Credit. Enter the tax on line 30. See Publication 572 for more information.

Line 31. Alternative minimum tax.—Tax preference items under section 57 include the following:

(1) The net capital gain deduction.

(2) The dividend exclusion.

(3) Accelerated depreciation on real property that is non-recovery property or 15-year real property or 18-year real property.

(4) Accelerated depreciation on leased property that is personal property or recovery property other than 15-year (or 18-year) real property.

(5) Amortization of certified pollution control facilities.

(6) Depletion.

(7) Incentive stock options to the extent the fair market value of the stock exceeds the option price.

Intangible drilling costs, mining exploration and development costs, circulation and research and experimental expenditures may be tax preference items. See **Form 6251,** Alternative Minimum Tax Computation, for more information.

In general, tax preference items are divided between the estate or trust and the beneficiaries in the same way the income is divided. See regulations section 1.58–3 and **Publication 909,** Minimum Tax, for more information.

See Form 6251 to determine if you must file that form. Attach Form 6251 to this return.

Line 33a. Credit from regulated investment companies.—Attach copy B of **Form 2439,** Notice to Shareholder of Undistributed Long-Term Capital Gains.

Line 33b. Credit for Federal tax on special fuels, nonhighway gasoline, and gasoline mixed with alcohol.—Attach **Form 4136,** Computation of Credit for Federal Tax on Gasoline and Special Fuels.

Line 33c. Overpaid windfall profit tax.—Attach **Form 6249,** Computation of Overpaid Windfall Profit Tax.

Line 34a. Federal income tax previously paid.—If you claim credit for Federal income tax previously paid with **Form 2758,** Application for Extension of Time to File, attach Form 2758.

Note: *Do not include on Form 1041 estimated tax paid by an individual before death. Include it instead on the income tax return filed for the decedent.*

Line 34b. Federal income tax withheld.—If you claim a credit for Federal income tax erroneously withheld (and not repaid) by an employer on wages and salaries of a decedent received by the decedent's estate, attach **Form W-2**, Wage and Tax Statement.

Include on line 34b any credit for backup withholding (under section 3406) for income retained by the estate or trust. Report on Schedule K-1 (Form 1041), line 10, any credit for backup withholding for income distributed to the beneficiary.

Line 36. Balance of tax due.—

Trust. The tax of a trust must be paid in full when the return is filed.

Estates. The tax of an estate may be paid in full when the return is filed or the fiduciary may elect installment payments by paying the tax in four equal installments by the 15th day of the 4th, 7th, 10th, and 13th months following the end of the tax year.

Caution: *DO NOT use the estimated tax vouchers, Form 1040ES, that are designed for payment of individual income tax.*

Make your check or money order payable to "Internal Revenue Service." Write the employer identification number and "1985 Form 1041" on the payment.

Instructions for Schedule A (Form 1041) Charitable Deductions

General Instructions

The percentage limitations applicable to individuals do not apply.

The charitable contribution must be authorized by the governing instrument. Distributions of corpus generally do not qualify for the charitable deduction. If you elect to treat a charitable contribution as paid in the preceding tax year, you must file the statement described in regulations section 1.642(c)-1 with the return (or amended return) for the tax year in which the contribution is treated as paid. The statement must be filed by the due date including extensions for the return for the succeeding tax year.

Who Must File

Use Schedule A (Form 1041) to determine the charitable contribution deduction for an estate or trust.

1. Simple Trusts—Simple trusts may not claim the charitable deduction.

2. Complex Trusts—Complex trusts may deduct amounts actually paid but amounts permanently set aside may be deducted only if authorized for certain events that happened on or before October 9, 1969.

3. Estates—Estates may deduct any part of gross income that under the terms of the governing instrument is paid or permanently set aside for a charitable purpose during the tax year.

What Must Be Filed.—

1. Complex Trusts and Estates.—Complete Schedule A (Form 1041) to compute the charitable deduction for an estate or a complex trust.

2. Complex Trusts.—All complex trusts claiming a charitable deduction must also file Form 1041-A, U.S. Information Return—Trust Accumulation of Charitable Amounts.

3. Other.—A pooled income fund, nonexempt private foundation, or trust with unrelated business income should attach a separate sheet to Form 1041 instead of using Schedule A (Form 1041) to compute the charitable deduction.

For more information about the charitable deduction, see Publication 559 and section 642(c) and related regulations.

Line By Line Instructions

Line 1. Enter on line 1 the full amount paid or permanently set aside from the current year's gross income that qualifies for the charitable deduction. *Do not include capital gain allocable to corpus.* Do include capital gain treated as income under the governing instrument and local law.

Line 2. Multiply the amount on line 1 by the total of all tax-exempt interest included in income of the current year. Then divide the result by the total of all income of the current year. (Do not subtract any losses, such as, from the sale or exchange of property.) Enter the result on line 2.

Line 3. On line 3 enter the long-term capital gain included on line 1. Figure this amount as follows. Multiply the amount on line 1 by the total of long-term capital gain allocated to income. Divide the result by the total of all the income of the current year.

The long-term capital gain of the current year allocable to corpus and paid or permanently set aside for a charitable purpose is included on line 9, adjusted in the same way as explained above for other long-term capital gain.

Line 6. Enter 60% of the amount on line 3, 4, or 5, whichever is smallest.

Line 9. Enter the total of all net short-term capital gain and 40% of net long-term capital gain of the current year that is:

- allocable to corpus,
- paid or permanently set aside for charitable purposes, and
- not included on line 1.

Line 10. Enter the total of deductible amounts paid or permanently set aside for charitable purposes from gross income of a prior tax year (and for which no charitable deduction was claimed in the prior tax year). Attach a statement to show the details.

Instructions for Schedule B (Form 1041) Income Distribution Deduction

General Instructions

Separate share rule.—If a single trust has more than one beneficiary, and if different beneficiaries have substantially separate and independent shares, their shares are treated as separate trusts for the sole purpose of determining the distributable net income allocable to the respective beneficiaries. If the separate share rule applies, figure the distributable net income allocable to each beneficiary on a separate sheet and attach the sheet to this return. For more information, see section 663(c) and related regulations.

Line By Line Instructions

Line 1. Adjusted total income.—If the amount on page 1, line 17 is greater than zero, enter that amount on line 1. If the amount on page 1, line 17 is zero or less, enter zero on line 1.

Line 2. Adjusted tax-exempt interest.—Figure the adjusted tax-exempt interest as follows. From the amount of tax-exempt interest received, subtract the total of (1) and (2) below:

(1) Tax-exempt interest on Schedule A (Form 1041), line 2.

(2) Any expenses allowable under section 212 allocable to tax-exempt interest, and any interest expense allocable to tax-exempt interest.

Figure section 212 expenses allocable to tax-exempt interest as follows. Divide the total tax-exempt interest received by the total of all the items of gross income (including tax-exempt interest) included in distributable net income. Multiply the result by the total section 212 expenses that are not directly attributable to any items of income.

Figure the interest expense allocable to tax-exempt interest according to the guidelines in Revenue Procedure 72-18, 1972-1 C.B. 740.

See Publication 559 and regulations sections 1.643(a)-5, 1.265-1, and 1.265-2 for more information about the adjustments to tax-exempt interest.

Line 10.—If you are filing for an estate, skip this line. If you are filing for a complex trust, enter the income for the tax year determined under the terms of the governing instrument and applicable local law. Do not include extraordinary dividends or taxable stock dividends determined under the governing instrument and applicable local law to be allocable to corpus.

Line 11.—Enter income of the estate or trust that is required to be distributed currently to all beneficiaries, whether it is distributed or not. The governing instrument and local law determine the items of income and whether an amount must be distributed currently. If the governing instrument requires that stated amounts be paid to a beneficiary and that these amounts may come from either income or corpus, include on line 11 any part of these amounts paid from income of the current year.

Line 12.—Enter other amounts actually paid, credited, or required to be distributed to beneficiaries in the tax year, whether from income or corpus.

Unless a section 643(d)(3) election is made, the value of all noncash property actually paid, credited, or required to be distributed to any beneficiaries after June 1, 1984, is the smaller of:

(1) the estate's or trust's adjusted basis in the property immediately before distribution, plus any gain or minus any loss recognized to the estate or trust on the distribution (basis of beneficiary), or

(2) the fair market value of such property. This rule does not apply to any noncash property distributed in satisfaction of a specific sum of money. If a section 643(d)(3) election is made by the fiduciary, then the amount entered on line 12 will be the fair market value of the property.

Lines 11 and 12.—Do not include on line 11 or 12:

- Any amounts deducted on an earlier year return that were required to be distributed in the earlier year.
- Any amount that is properly paid or credited as a gift or bequest of a specific amount of money or specific property. (To qualify as a gift or bequest, the amount must be paid in three or fewer installments.) An amount that can be paid or credited only from income is not considered a gift or bequest.
- Any amount paid or permanently set aside for charitable purposes or otherwise qualifying for the charitable deduction.

Line 13. Total distributions.—Add lines 11 and 12 and enter the total on line 13. If line 13 is more than line 10 and you are filing for a complex trust, complete **Schedule J (Form 1041)** and file it with Form 1041 unless the complex trust has no previously accumulated income.

Line 14.—Figure the amount to enter on line 14 as follows. From tax-exempt income included on line 13, subtract the total of (1) and (2) below:

(1) The tax-exempt income included in any charitable deduction.

(2) The allocable share of expenses related to the tax-exempt income.

Figure the allocable share of expenses as follows. Divide tax-exempt income by total income. Multiply the result by expenses not directly allocable to any item of income.

Other Information

Question 2.—The purpose of this question is to remind you NOT to deduct on page 1 the share of expenses allocable to tax-exempt income. For example, deduct only half the fiduciary fees on line 12 if half the income is tax-exempt. For more information, see Publications 550 and 559.

If you receive tax-exempt income, figure the allocation of expenses between tax-exempt and taxable income on a separate sheet and attach it to the return. Enter only the deductible amounts on the return. Do NOT figure the allocation on the return itself.

Question 3.—All salaries, wages, and other compensation for personal services must be included in the return of the person who earned the income, even though the income was irrevocably assigned to a trust by a contract assignment or similar arrangement.

The grantor or person creating the trust is considered the owner if he or she keeps "beneficial enjoyment" of or substantial control over the trust property. The trust's income, deductions, and credits are allocable to the owner.

If you checked "Yes" for Question 3, see the Specific Instruction for "Grantor Type Trust."

Question 4.—Check the "Yes" box and enter the name of the foreign country if either (1) or (2) below applies.

(1) At any time during the year the estate or trust had an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account). Exception: Check "No" if either of the following applies to the estate or trust:

- The combined value of the accounts was $5,000 or less during the whole year; OR
- The accounts were with a U.S. military banking facility operated by a U.S. financial institution.

(2) The estate or trust owns more than 50% of the stock in any corporation that owns one or more foreign bank accounts.

Get **Form TD F 90-22.1** to see if the estate or trust is considered to have an interest in or signature or other authority over a bank account, securities account, or other financial account in a foreign country.

If you checked "Yes" for Question 4, file Form TD F 90–22.1 by June 30, 1986, with the Department of the Treasury at the address shown on the form. Form TD F 90–22.1 is not a tax return, so do not file it with IRS. But be sure to file Form 1041 with IRS.

You may order Form TD F 90–22.1 from the IRS Forms Distribution Center for your state listed in the instructions for Form 1040.

Question 7.—Check the box for a complex trust making the section 663(b) election to treat any amount properly paid or credited to a beneficiary within the first 65 days following the close of the tax year as being properly paid or credited on the last day of the preceding tax year.

Question 8.—Section 643(d)(3) election.—To make the section 643(d)(3) election check the box and see the instructions for Schedule D (Form 1041).

Question 9.—Check the box, if the decedent's estate has been open for more than two years and attach an explanation of the delay in closing the estate.

Signature.—Form 1041 must be signed by the fiduciary or by an authorized representative.

If you fill in your own return, the Paid Preparer's space should remain blank. If someone prepares your return and does not charge you, that person should not sign your return .

Generally, anyone who is paid to prepare your tax return must sign your return and fill in the other blanks in the Paid Preparer's Use Only area of your return.

The person required to sign your return must complete the required preparer information and:

- Sign it, by hand, in the space provided for the preparer's signature. (Signature stamps and labels are not acceptable.)
- Give you a copy of your return in addition to the copy to be filed with IRS.

Tax return preparers should know their responsibilities. These are described in **Publication 1045**, Information and Order Blanks for Preparers of Federal Income Tax Returns.

Instructions for Schedule D (Form 1041) Capital Gains and Losses

General Instructions

File Schedule D (Form 1041) with Form 1041 to report gains and losses from the sale or exchange of capital assets by an estate or trust.

To report sales or exchanges of property other than capital assets, including the sale or exchange of property used in a trade or business and involuntary conversions (other than casualties and thefts), see Form 4797 and related instructions.

If property is involuntarily converted because of a casualty or theft, use **Form 4684**, Casualties and Thefts.

Capital Asset.—Each item of property held by the estate or trust (whether or not connected with its trade or business) is a capital asset except:

- inventoriable assets or property held primarily for sale to customers;
- depreciable or real property used in a trade or business;
- certain copyrights, literary, musical, or artistic compositions, letters or memorandums or similar property;
- accounts or notes receivable acquired in the ordinary course of trade or business for services rendered or from the sale of inventoriable assets or property held primarily for sale to customers; and
- certain Federal publications not purchased at the public sale price.

You may find additional helpful information in the following publications that are available from the Internal Revenue Service.

Publication 559, Tax Information for Survivors, Executors, and Administrators.

Publication 544, Sales and Other Dispositions of Assets.

Publication 551, Basis of Assets.

Publication 537, Installment Sales.

Publication 549, Condemnations and Business Casualties and Thefts.

Alternative minimum tax.—If any capital gains are allocated to the estate or trust during the tax year, the fiduciary may be required to attach **Form 6251**, Alternative Minimum Tax Computation, to Form 1041 for the alternative minimum tax imposed by section 55. For more information see Form 6251.

Section 643(d)(3) election.—For noncash property distributions made after June 1, 1984, a fiduciary may elect to have the estate or trust recognize gain or loss in the same manner as if the distributed property had been sold to the beneficiary at its fair market value.

It should be noted that section 267 will not allow a deduction for any loss from the sale of property on which a trust makes a section 643 (d)(3) election. In addition, when a trust distributes depreciable property, section1239 would apply to deny capital gain treatment on the gain to the trust if the trust makes a section 643(d)(3) election.

Section 644 tax on trusts.—If a trust sells or exchanges property at a gain within 2 years after receiving it from a transferor, a special tax may be due. *Do not include section 644 gains on Schedule D.* The tax is reported separately on Form 1041. For more information see the Form 1041 instructions for line 25b.

Transfer of appreciated property to a political organization.—If an estate or trust transfers property to a political organization as defined in section 527(e)(1), and if at the time of the transfer the fair market value of the property is more than the adjusted basis, treat the transfer as a sale of property on the date of transfer. Report the fair market value of the property at the time of transfer as the sale price. Ordinary income or capital gain provisions apply as if a sale had actually occurred. For more information, see section 84 and Publication 559.

Exchange of "like kind" property.—In most cases, no gain or loss is recognized when property held for productive use in a trade or business or for investment is exchanged solely for property of a "like kind" to be held either for productive use in a trade or business or for investment. See section 1031. However, report these transactions on Schedule D or Form 4797, whichever is applicable. If you use Schedule D, identify in column (a) the property disposed of. Enter the date of acquisition in column (b) and the date of exchange in column (c). Write "like kind exchange" in column (d) and enter the adjusted basis in column (e). Enter zero in column (f). See Publication 544 and the Form 4797 instructions for more information.

Losses in transactions between certain persons.—Do not deduct a loss from the sale or exchange of property directly or indirectly between any of the following:

- A grantor and a fiduciary of a trust.
- A fiduciary and a fiduciary or beneficiary of another trust created by the same grantor.

- A fiduciary and a beneficiary of the same trust.
- A trust fiduciary and a corporation of which more than 50% in value of the outstanding stock is owned directly or indirectly by or for the trust or by or for the grantor of the trust.

See Publication 544 for more information.

Estate tax deduction for income in respect of a decedent.—For purposes of computing

- the long-term capital gain deduction,
- the alternative tax on capital gains,
- the limitation on capital losses, and
- the capital gains item of tax preference

the amount of any gain taken into account that is treated as income in respect of a decedent must be reduced (but not below zero) by the amount of the allowable deduction for estate tax attributable to that gain (Section 691(c)(4) deduction). If these limitations apply, figure them on a separate sheet and attach the sheet to Schedule D. For more information, see section 691(c) and the related regulations.

Disposition of market discount bonds.—See section 1276 for rules on the disposition of any market discount bonds that were issued after July 18, 1984.

Line By Line Instructions

Line 1. Short-term capital gains and losses.—When you list the capital gains and losses, separate them according to how long the estate or trust held or owned the property. The holding period for determining short-term capital gains and losses is six months or less (one year or less if acquired before June 23, 1984). The holding period for determining long-term capital gains and losses is more than six months (more than one year if acquired before June 23, 1984).

On line 1 itemize the short-term capital gains and losses. Property acquired by a decedent's estate from the decedent and sold or otherwise disposed of within six months (within one year for assets acquired before June 23, 1984) is considered as held for more than six months (more than one year for assets acquired before June 23, 1984). Itemize the long-term capital gains and losses for the decedent's estate on line 7.

To figure the holding period.—When you figure the length of the period the estate or trust held property, begin counting on the day after the estate or trust got the property and include the day the estate or trust disposed of it. Use the trade dates for the date of acquisition and sale for stocks and bonds on an exchange or over the counter market.

See the instructions for **Form 6781**, Gains and Losses From Section 1256 Contracts and Straddles, if you are reporting gains or losses from section 1256 contracts or straddles that you held during the tax year. Include in basis interest and carrying charges allocable to personal property that is part of a straddle. *You cannot deduct these expenses.* For exceptions, see Publication 544. See sections 1092 and 263(g) for more information.

Column (d). Gross sales price.—Enter the selling price of the property sold.

Column (e). Cost or other basis, as adjusted, plus expense of sale.—Enter the cost or adjusted basis of the property sold or exchanged, plus any expense of sale, such as broker's fees, commissions, etc. The basis of property acquired from or passing from a decedent is generally the fair market value at the date of death. For more information, see Publication 551 and Publication 559.

For an election under section 2032A (special valuation for farm or business real property), use the rules of section 2032A to determine basis.

For a transfer subject to the generation-skipping transfer tax, use the rules in section 2614(a) to determine basis.

Carryover basis determined under repealed section 1023 applies to property acquired from a decedent who died after December 31, 1976, and before November 7, 1978, only if the personal representative elected it on a **Form 5970-A,** Election of Carryover Basis, that was filed on time.

The basis of property acquired by gifts made before January 1, 1977, generally is the basis of the property in the hands of the donor plus any gift tax paid. For gifts made after December 31, 1976, only part of the gift tax may be added to the basis of the property in the hands of the donor. See Publication 551 for more information.

For more information dealing with basis, income in respect of a decedent, compulsory or involuntary conversions, and pecuniary bequests involving special value farm or business real property (section 2032A), see the following:

- Section 1014, Basis of Property Acquired from a Decedent.
- Section 1015, Basis of Property Acquired by Gifts and Transfers in Trust.
- Section 1016, Adjustments to Basis.
- Section 1040, Transfer of Certain Farm, Etc., Real Property.
- **Publication 448,** Federal Estate and Gift Taxes.
- **Publication 551,** Basis of Assets.
- **Publication 559,** Tax Information for Survivors, Executors, and Administrators.

Attach an explanation if the basis used is other than the actual cash cost of the property.

Lines 2 and 8. Installment sales.—If you sold estate or trust property at a gain this year and are to receive any payment in a later tax year, use the installment method and file **Form 6252,** Computation of Installment Sale Income, unless you elect not to.

You need not use Form 6252 for year-end stock sales where payment is received in the following year. Instead, report the sale directly on your Schedule D for the year of payment unless you elect out of the installment method.

Also use Form 6252 if you received a payment in 1985 from a sale made in an earlier year on the installment basis.

If you elect not to use the installment method and are reporting a note or other obligation at less than full face amount, state that fact in the margin and give the percentage of valuation.

If you file Form 6252, enter on Schedule D (Form 1041), line 2, the short-term capital gain from installment sales from Form 6252. Enter on Schedule D (Form 1041), line 8, the long-term capital gain from installment sales from Form 6252.

See Publications 537 and 559 for more information.

Line 5. Short-term capital loss carryover.—Enter on line 5 the amount from line 29 of your retained copy of your 1984 Schedule D (Form 1041) if you have only post-1969 capital losses. If you have pre-1970 capital losses, see Publication 544 and Publication 550, Investment Income and Expenses, for information on how to figure the capital loss carryover.

Line 7. Long-term capital gains and losses.—Itemize the long-term capital gains and losses. See the line 1 instructions for the holding period rules for determining short- and long-term capital gains and losses. See the column (e) instructions for determining basis.

Attach an explanation if the basis used is other than the actual cash cost of the property.

Redemption of stock to pay death taxes.—If stock is redeemed under the provisions of section 303, list and identify it on line 7 and give the name of the decedent and the IRS office where the estate tax or generation-skipping tax return was filed.

If you are reporting capital gain from a lump-sum distribution from Form 4972 or Form 5544 see the instructions for those forms for information about the death benefit exclusion and the Federal estate tax.

See the instructions for Form 6781 if you are reporting gains or losses from section 1256 contracts or straddles that you held during the tax year. Include in basis, interest and carrying charges allocable to personal property that is part of a straddle. *You cannot deduct these expenses.* See sections 1092 and 263(g) for more information.

Line 10. Capital gain distributions.—Enter any amounts shown on **Form 2439,** Notice to Shareholder of Undistributed Long-Term Capital Gains, that represent the estate's or trust's share of the undistributed capital gains of a regulated investment company. Include on Form 1041, line 33a, the tax paid by the company as shown on Form 2439. To the basis of the stock, add the excess of the amount included in income over the credit if the amount is not distributed.

Line 13. Long-term capital loss carryover.—Enter on line 13 the amount from line 35 of your retained copy of your 1984 Schedule D (Form 1041) if you have only post-1969 capital losses. If you have pre-1970 capital losses, see Publication 544 and Publication 550 for information on how to figure the capital loss carryover.

Line 15, column (a). Net short-term capital gain or loss allocated to beneficiaries.—Enter the amount of net short-term capital gain or loss allocable to the beneficiary or beneficiaries. Include only those short-term capital losses that are taken into account in determining the amount of gain from the sale or exchange of capital assets that is paid, credited, or required to be distributed to any beneficiary during the tax year. See Publication 559 and regulations section 1.643(a)-3 for more information about allocation of capital gains and losses.

Line 15, column (b). Net short-term capital gain or loss allocated to the fiduciary.—Enter the amount of the net short-term capital gain or loss allocable to the fiduciary. Include any capital gain paid or permanently set aside for the charitable purpose specified in section 642(c).

Except for the final year of an estate or trust, if the losses from the sale or exchange of capital assets are more than the gains, all of the losses are allocated to the fiduciary and none are allocated to the beneficiaries. For more information, see Publication 559.

Line 15, column (c). Total.—Enter the total of the amounts entered in columns (a) and (b). The amount in column (c) should be the same as the amount on line 6.

Line 16. Net long-term capital gain or loss.—Treat the net long-term capital gain or loss on line 16 the same as the net short-term capital gain or loss on line 15.

Line 21. Net long-term capital gains taxable to beneficiaries.—Total all the net long-term capital gains taxable to the beneficiaries that are included on line 2b of each separate Schedule K-1 (Form 1041) and enter that amount on line 21.

Note: *If any beneficiary received capital gains that were derived from income in respect of a decedent and a Section 691(c)(4) deduction was claimed, then line 21 must also include the portion of the Section 691(c)(4) deduction claimed.*

Line 24. Capital loss limitation.—If the sum of all the capital losses is more than the sum of all the capital gains (all the gains and losses are taken into account at 100%), then these capital losses are allowed as a deduction only to the extent of:

(1) current year capital gains plus

(2) the smallest of: (a) the taxable income, as adjusted, of the current year, (b) $3,000, or (c) the sum of (i) the excess of the net short-term capital loss over the net long-term capital gain, and (ii) one-half of the excess of the net long-term capital loss over the net short-term capital gain. For this purpose, taxable income is figured without capital gains or losses or the deduction for exemption. See "Estate tax deduction for income in respect of a decedent" on page 9.

Part VI. Computation of Post-1969 Capital Loss Carryovers from 1984 to 1985.—Complete Part VI to figure the capital loss carryover if you have only post-1969 capital losses and this is not the final year. *You cannot use Part VI to figure your capital loss carryover if you have pre-1970 capital losses.* In most cases, the excess of allowable losses over the sum of items (1) and (2) in the instructions for line 24 is called "capital loss carryover." However, section 1212(b)(2) contains a special rule for figuring the long-term capital loss carryover which, in general, prevents 50% of the net long-term capital loss from being carried forward as a capital loss carryover. A capital loss carryover may be carried forward indefinitely. Capital losses keep their character as either short-term or long-term when carried over to the following year. To the extent the capital loss limitation is deducted from ordinary income, consider the net short-term capital loss as deducted first. For more information, see Publication 544 and Publication 550.

Instructions for Schedule J (Form 1041) Trust Allocation of an Accumulation Distribution (I.R.C. Section 665)

General Instructions

Purpose of Form.— File Schedule J (Form 1041) with Form 1041 to report an accumulation distribution by a domestic complex trust.

Line By Line Instructions

Part I.—Accumulation Distribution in 1985

Line 1. Distribution under section 661(a)(2).—Enter the amount from Schedule B (Form 1041), line 12, for 1985. This is the amount properly paid, credited, or required to be distributed other than the amount of income for the current tax year required to be distributed currently.

Line 2. Distributable net income.—Enter the amount from Schedule B (Form 1041), line 9, for 1985. This is the amount of distributable net income for the current tax year determined under section 643(a).

Line 3. Distribution under section 661(a)(1).—Enter the amount from Schedule B (Form 1041), line 11, for 1985. This is the amount of income for the current tax year required to be distributed currently.

Line 5. Accumulation distribution.—Subtract line 4 from line 1. If Schedule B (Form 1041), line 13, is more than Schedule B (Form 1041), line 10, complete the rest of Schedule J and file it with Form 1041, unless the trust has no previously accumulated income.

Generally, amounts accumulated before a beneficiary becomes age 21 may be excluded by the beneficiary. See sections 665 and 667(c) for exceptions relating to multiple trusts. The trustee reports to IRS the total amount of the accumulation distribution before any reduction for income accumulated before the beneficiary becomes age 21. Then the beneficiary claims the exclusion when filing **Form 4970**, Tax on Accumulation Distribution of Trusts, if the multiple trust rules do not apply. This is because one trustee may be unaware that the beneficiary may be a beneficiary of other trusts with other trustees.

There are examples of accumulation distributions in regulations section 1.665(b)–1A(b) that include (1) payments from one trust to another trust, and (2) amounts distributed for a dependent's support.

Part II.—Ordinary Income Accumulation Distribution

Line 6. Distributable net income for earlier years.—Enter the applicable amounts as follows:

Throwback year(s)	Amount from line
1969 – 1977	Schedule C (Form 1041), line 5
1978 – 1979	Form 1041, line 61
1980	Form 1041, line 60
1981 – 1982	Form 1041, line 58
1983 – 1984	Schedule B (Form 1041), line 9

For information about throwback years, see the instructions for line 13. For purposes of line 6 of Schedule J, in figuring the distributable net income of the trust for a throwback year, subtract any estate tax deduction for income in respect of a decedent if the income is includible in figuring the distributable net income of the trust for that year.

Line 7. Distributions made during earlier years.—Enter the applicable amounts as follows:

Throwback year(s)	Amount from line
1969 – 1977	Schedule C (Form 1041), line 8
1978	Form 1041, line 64
1979	Form 1041, line 65
1980	Form 1041, line 64
1981 – 1982	Form 1041, line 62
1983 – 1984	Schedule B (Form 1041), line 13

Line 11. Prior accumulation distribution thrown back to any throwback year.—Enter the amount of prior accumulation distributions thrown back to the throwback years. *Do not enter distributions excluded under section 663(a)(1) for gifts, bequests, etc.*

Line 13. Throwback years.—Allocate the amount on line 5 that is an accumulation distribution to the earliest applicable year first, but do not allocate more than the amount on line 12 for any throwback year. An accumulation distribution is thrown back first to the earliest preceding tax year beginning after December 31, 1968, in which there is undistributed net income. Then it is thrown back beginning with the next earliest year to any remaining preceding tax years of the trust. The portion of the accumulation distribution allocated to the earliest preceding tax year is the amount of the undistributed net income for that year. The portion of the accumulation distribution allocated to any remaining preceding tax year is the amount by which the accumulation distribution is larger than the total of the undistributed net income for all earlier preceding tax years. A tax year of a trust during which the trust was a simple trust for the entire year is not a "preceding tax year" unless (1) during that year the trust received "outside income" or (2) the trustee did not distribute all of the income of the trust that was required to be distributed currently for that year. In this case, undistributed net income for that year must not be more than the greater of the "outside income" or income not distributed during that year. The term "outside income" means amounts that are included in distributable net income of the trust for that year but that are not "income" of the trust as is defined in regulations section 1.643(b)–1. Some examples of "outside income" are (1) income taxable to the trust under section 691, (2) unrealized accounts receivable that were assigned to the trust, and (3) distributions from another trust that include distributable net income or undistributed net income of the other trust. Enter the applicable year at the top of each column for each throwback year.

Line 16. Tax-exempt interest included on line 13.—For each throwback year, divide line 15 by line 6 and multiply the result by one of the following:

Throwback year(s)	Amount from line
1969–1977	Schedule C (Form 1041), line 2(a)
1978–1979	Form 1041, line 58(a)
1980	Form 1041, line 57(a)
1981–1982	Form 1041, line 55(a)
1983–1984	Schedule B (Form 1041), line 2

Part III .—Taxes Imposed on Undistributed Net Income

(The alternative tax on capital gains was repealed for tax years beginning after December 31, 1978. The 1981 alternative tax is not an alternative tax for this purpose.)

For the regular tax computation, if there is a capital gain, complete lines 18 through 25 for each throwback year. If the trustee elected the alternative tax on capital gains, complete lines 26 through 31 instead of lines 18 through 25 for each applicable year. (If there is no capital gain for any year (or there is a capital loss for every year), enter on line 9 the amount of the tax for each year identified in the instruction for line 18; do not complete Part III). If the trust received an accumulation distribution from another trust, see the regulations under sections 665 through 668.

A. Regular Tax Computation

Line 18. Tax.—Enter the applicable amounts as follows:

Throwback year(s)	Amount from line
1969–1976	Form 1041, page 1, line 24
1977	Form 1041, page 1, line 26
1978–1979	Form 1041, line 27
1980–1984	Form 1041, line 26c

Line 19. Net short-term gain allocated to trust.—For each throwback year, enter on line 19 the smaller of the capital gain from the two lines indicated; if there is a capital loss or a zero on either or both of the two lines indicated, enter zero on line 19.

Throwback year(s)	Amount from line
1969–1970	Schedule D, line 10, column 2, or Schedule D, line 12, column 2.
1971–1978	Schedule D, line 14, column 2, or Schedule D, line 16, column 2.
1979	Schedule D, line 18, column (b), or Schedule D, line 20, column (b).
1980–1981	Schedule D, line 14, column (b), or Schedule D, line 16, column (b).
1982	Schedule D, line 16, column (b), or Schedule D, line 18, column (b).
1983–1984	Schedule D, line 15, column (b), or Schedule D, line 17, column (b).

Line 20. Net long-term gain taxable to the trust.—Enter the applicable amounts as follows:

Throwback year(s)	Amount from line
1969–1970	50% of Schedule D, line 13(e)
1971–1977	50% of Schedule D, line 17(e)
1978	Schedule D, line 17(e), or line 31 whichever is applicable less Form 1041, line 23.
1979	Schedule D, line 25, or line 27 whichever is applicable less Form 1041, line 23.
1980–1981	Schedule D, line 21, less Schedule D, line 22.
1982	Schedule D, line 23, less Schedule D, line 24.
1983–1984	Schedule D, line 22, less Schedule D, line 23.

Line 22. Total taxable income.—Enter the applicable amounts as follows:

Throwback year(s)	Amount from line
1969–1976	Form 1041, page 1, line 23
1977	Form 1041, page 1, line 25
1978–1979	Form 1041, line 26
1980–1984	Form 1041, line 25

B. Alternative Tax on Capital Gain

Line 26. Tax on income other than long-term capital gain.—Enter the applicable amounts as follows:

Throwback year (s)	Amount from line
1969	Schedule D, line 20
1970	Schedule D, line 19
1971	Schedule D, line 50
1972–1975	Schedule D, line 48
1976–1978	Schedule D, line 27

Line 27. Net short-term gain taxable to the trust.—If there is a loss on any of the following lines, enter zero on line 27 for the applicable throwback year. Otherwise, enter the applicable amounts as follows:

Throwback year(s)	Amount from line
1969–1970	Schedule D, line 10, column 2
1971–1978	Schedule D, line 14, column 2

Line 28. Total taxable income less section 1202 deduction for capital gain allocated to the trust.—Enter the applicable amounts as follows:

Throwback year(s)	Amount from line
1969	Schedule D, line 19
1970	Schedule D, line 18
1971	Schedule D, line 38
1972–1975	Schedule D, line 39
1976–1978	Schedule D, line 21

Part IV.—Allocation to Beneficiary

Complete Part IV for each beneficiary. If the accumulation distribution is allocated to more than one beneficiary, attach an additional copy of Schedule J with Part IV completed for each additional beneficiary. You may give a copy to the beneficiary. If more than five throwback years are involved, attach additional schedules.

If the beneficiary is a nonresident alien individual or a foreign corporation, see section 667(e) about retaining the character of the amounts distributed to determine the amount of the United States withholding tax.

The beneficiary may use Form 4970 to compute the tax on the distribution. The beneficiary may also use Form 4970 for the section 667(b)(6) tax adjustment if an accumulation distribution is subject to estate or generation-skipping tax. This is because the trustee may not be the estate or generation-skipping tax return filer.

Instructions for Schedule K-1 (Form 1041) Beneficiary' s Share of Income, Deductions, Credits, etc.

General Instructions

Purpose of Form.—File Schedule K–1 (Form 1041) with Form 1041 to report the beneficiary's income from the estate or trust.

Who Must File.—The fiduciary (or one of the joint fiduciaries) must file Schedule K-1. A copy of each beneficiary' s Schedule K-1 is attached to the Form 1041 filed with the IRS and each beneficiary is to be given a copy of his or her respective Schedule K–1. One copy of each Schedule K–1 must be retained for the fiduciary' s records.

Beneficiary's identifying number.—As a payer of income, you are required under section 6109 to request and provide a proper identifying number for each recipient of income. Enter this number on all Schedules K–1 when you file your return. Individuals and business recipients are responsible for giving you their taxpayer identification numbers upon request. You may use **Form W–9**, Payer's Request for Taxpayer Identification Number, to request the beneficiary's identifying number.

Penalty.—Under section 6676 the payer is charged a $50 penalty for each failure to provide a required taxpayer identification number (not to exceed $50,000 for any calendar year), unless reasonable cause is established for not providing it. If reasonable cause exists, please explain in a signed affidavit and attach to this return.

Tax shelter's identification number.—If the estate or trust is a tax shelter, is involved in a tax shelter, or is considered to be the organizer of a tax shelter, there are reporting requirements under section 6111 for both the fiduciaries and the beneficiaries.

See **Form 8264**, Application for Registration of a Tax Shelter, and **Form 8271**, Investor Reporting of Tax Registration Number, and their related instructions for information regarding the fiduciary's reporting requirements.

Substitute forms.—You do not need prior IRS approval for substitute Schedules K–1 that include the OMB number and that (a) show only the line items that a taxpayer needs if those line items have the same numbers and titles and are in the same order as on the comparable IRS Schedule K–1; or (b) are an exact copy of an IRS Schedule K–1. You must have prior approval for any other substitute Schedules K–1. You may apply for it by writing to: Internal Revenue Service, 1111 Constitution Avenue, NW, Washington, DC, 20224, Attention: D:R:R:IM.

Beneficiary's Income.—If no special computations are required, use the following instructions to compute the beneficiary's income from the estate or trust. In other cases, see Publication 559 and sections 652, 662, and 663 and related regulations. For example, special computations are required for capital gains and losses or a charitable deduction. In addition, the terms of the governing instrument or local law may require different computations.

Income.—The beneficiary must include in gross income the smaller of (1) the amounts paid, credited, or required to be distributed, or (2) the proportionate share of distributable net income, reduced in either case by the share of distributable tax-exempt income minus the allocable expense not allowable as a deduction on Form 1041.

Character of Income.—The beneficiary's income is considered to have the same proportion of each class of items entering into the computation of distributable net income that the total of each class has to the distributable net income (for example, half dividends and half interest if the entity's income is half dividends and half interest).

Allocation of deductions.—Use the following method to allocate the items of deduction that enter into the computation of distributable net income among the items of distributable net income. Subtract the deductions attributable to one class of income from that income. Subtract those deductions not attributable to one class of income from any class, but be sure a reasonable proportion is subtracted from tax-exempt income. Except for deductions allocable to tax-exempt income, you may allocate excess deductions attributable to one class of income to other classes. You may not allocate any of the deductions in the computation of distributable net income to items attributable to corpus or to income not included in distributable net income. Except for the final year and for depreciation or depletion allocations in excess of income (see Rev. Rul. 74–530, 1974–2 C.B. 188), you may not show any negative amounts for any class of income because the beneficiary generally may not claim losses or deductions from the estate or trust.

Allocation of credits.—In general, the estate or trust or the beneficiaries may claim applicable tax credits according to how the income is divided. For more information, see the appropriate Code sections for the tax credits.

Gifts and bequests.—Do not include in the beneficiary's income any gifts or bequests of a specific sum of money or of specific property under the terms of the governing instrument that are paid or credited in three installments or less.

Amounts that can be paid or credited only from income of the estate or trust do not qualify as a gift or bequest of a specific sum of money.

Past years.—Do not include in the beneficiary's income amounts deducted on Form 1041 for an earlier year that were credited or required to be distributed in that earlier year.

Beneficiary's tax year.—The beneficiary's income from the estate or trust must be included in the beneficiary's tax year during which the tax year of the estate or trust ends. See Publication 559 for more information including the effect of the death of a beneficiary during the tax year of the estate or trust.

Line By Line Instructions

Line 1. Dividends.—Enter the beneficiary's share of the dividend income that qualifies for exclusion.

Line 2a. Net short-term capital gain or loss.—Enter the beneficiary's share of the net short-term capital gain. Do not enter a loss for any year before the final year of the estate or trust. If for the final year there is a capital loss carryover, enter the beneficiary's share of short-term capital loss carryover as a loss in parentheses. However, if the beneficiary is a corporation, enter the beneficiary's share of all carryover capital losses as a loss in parentheses. See Publication 559 and section 642(h) and related regulations for more information.

Line 2b. Net long-term capital gain or loss.—Enter the beneficiary's share of the net long-term capital gain. Do not enter a loss for any year before the final year of the estate or trust. If for the final year there is a capital loss carryover, enter the beneficiary's share of the long-term capital loss carryover as a loss in parentheses. (If the beneficiary is a corporation, see instruction 2a.) See Publication 559 and section 642(h) and related regulations for more information.

Line 3. Interest.—Enter the beneficiary's share of taxable interest income.

Line 4a. Other taxable income.—Itemize by type of income the beneficiary's share of the other taxable income not reportable on line 1, 2a, 2b or 3. This includes dividends that do not qualify for an exclusion.

Line 4c. Depreciation (including cost recovery) and depletion.—Enter the beneficiary's share of the depreciation and depletion deductions. See the instructions on page 3, line 4 for allocating the beneficiaries' share of depreciation or depletion between the beneficiaries and the estate or trust.

Line 4d. Amortization deductions.—Itemize the beneficiary's share of the amortization deductions. Divide the amortization deductions between the fiduciary and the beneficiaries in the same way that the depreciation and depletion deductions are divided.

Unused loss carryover.—Upon termination of an estate or trust, a beneficiary succeeding to its property is allowed to deduct any amount of unused net operating loss carryover or capital loss carryover. Enter the unused carryover amount on line 4d(2) and write "NOL CARRYOVER" or "CAPITAL LOSS CARRYOVER" to the left of the figure. Note, if the last tax year of the estate or trust is the last year to which a NOL can be carried, the NOL is an excess deduction and should be included on line 6 rather than on line 4d(2). For more information, see the instructions for line 6 below, Publication 559, section 642(h), and related regulations.

Line 5. Estate tax deduction.—Enter the beneficiary's deduction. Figure the deduction on a separate sheet and attach the sheet to this return. See Publication 559 and section 691(c) and related regulations for information on how to figure the estate tax deduction.

Line 6. Excess deductions on termination.—If this is the final return and there are excess deductions on termination or a net operating loss carryover then enter the beneficiary's share of the excess deductions on line 6.

(a) *Excess Deductions.* Excess deductions on termination occur only during the last taxable year of the estate or trust when the total deductions (other than the deductions allowed under section 642(b) (relating to the exemption amount) or section 642(c) (relating to the charitable contributions)) are greater than the gross income during that tax year. Figure the deductions on an attached sheet.

Only the beneficiary of an estate or trust that suceeds to its property is allowed to deduct that entity's excess deductions on termination. A beneficiary who does not have enough income in that year to absorb the entire deduction may not carry the balance over to any succeeding year. An individual beneficiary must be able to itemize deductions in order to claim the excess deductions in determining taxable income.

(b) *Net Operating Loss Carryover.* Generally, a deduction based upon a NOL carryover is not available to a beneficiary as excess deductions and should be entered on line 4d(2). However, if the last tax year of the estate or trust is also the last year in which a NOL carryover may be taken (see section 172(b)), then the NOL carryover is considered an excess deduction on the termination of the entity to the extent it is not absorbed by the estate or trust during its final tax year. For more information see the instructions for line 4d above, Publication 559, and section 642(h), and the related regulations.

Line 7. Tax preference items.—Enter the beneficiary's tax preference items on the applicable lines. Attach a separate sheet if needed. For the tax preference items under section 57, see the instructions to line 31 on page 6.

Line 8. Foreign taxes.—List on a separate sheet the beneficiary's share of the applicable foreign taxes paid or accrued and the various foreign source figures needed for the beneficiary's foreign tax credit. See Publication 559, **Publication 514**, Foreign Tax Credit for U.S. Citizens and Resident Aliens, and section 642(a) and related regulations for special rules about foreign taxes.

Line 9. Property eligible for investment credit.—If a part of the investment (other than for commuter highway vehicles, business energy and qualified rehabilitation expenditures) is apportioned to the beneficiary, enter the recovery property information allocable to the beneficiary on the appropriate lines in item 9.

For nonrecovery property attach to each Schedule K–1 a separate schedule which shows each beneficiary's share of nonrecovery property eligible for the credit. Use the format of the worksheet in the Form 3468. See **Publication 572**, Investment Credit, and **Form 3468**, Computation of Investment Credit .

Line 10. Other.—Itemize on line 10 or on a separate sheet the beneficiary's tax information for which there is no other line on Schedule K–1. This includes the allocable share, if any, of:

- tax-exempt income realized by the estate or trust,
- gross farming and fishing income
- credit for backup withholding (section 3406),
- investment income (section 163(d)),
- qualified rehabilitation expenditure,
- commuter highway vehicle investment credit,
- the portion of the investment credit from a cooperative organization specially allocated under section 46(h),
- the jobs credit,
- the alcohol fuel credit,
- the increased research credit, and
- the information a beneficiary will need to refigure an earlier year investment credit.

SCHEDULE D
(Form 1041)
Department of the Treasury
Internal Revenue Service

Capital Gains and Losses

► **File with Form 1041. See the separate instructions.**

OMB No. 1545-0092

1985

Name of estate or trust	**Employer identification number**

Do not report section 644 gains on Schedule D; see Form 1041 instruction for line 25b.

Part I Short-Term Capital Gains and Losses—Assets Held Six Months or Less (one year or less if acquired before 6/23/84)

(a) Description of property (Example, 100 shares 7% preferred of "Z" Co.)	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Gross sales price	(e) Cost or other basis, as adjusted, plus expense of sale (see instructions)	(f) Gain or (loss) (col. (d) less (e))
1					

2 Short-term capital gain from installment sales from Form 6252	2	
3 Enter the net short-term gain or (loss) from partnerships, S corporations, and other fiduciaries	3	
4 Net gain or (loss), (combine lines 1 through 3)	4	
5 Short-term capital loss carryover (see instructions)	5	( )
6 Net short-term gain or (loss), (combine lines 4 and 5). Enter here and on line 15 below ►	6	

Part II Long-Term Capital Gains and Losses—Assets Held More than Six Months (more than one year if acquired before 6/23/84)

7					

8 Long-term capital gain from installment sales from Form 6252	8	
9 Enter the net long-term gain or (loss) from partnerships, S corporations, and other fiduciaries	9	
10 Capital gain distributions	10	
11 Enter gain, if applicable, from Form 4797	11	
12 Net gain or (loss), (combine lines 7 through 11)	12	
13 Long-term capital loss carryover (see instructions)	13	( )
14 Net long-term gain or (loss), (combine lines 12 and 13). Enter here and on line 16 below ►	14	

Part III Summary of Parts I and II

		(a) Beneficiaries	(b) Fiduciary	(c) Total
15 Net short-term gain or (loss) from line 6, column (f) above	15			
16 Net long-term gain or (loss) from line 14, column (f) above	16			
17 Total net gain or (loss), (combine lines 15 and 16) ►	17			

If line 17, column (c) is a net gain, enter the gain on Form 1041, line 6 and complete Part IV. If line 17, column (c) is a net (loss), complete Part V.

For Paperwork Reduction Act Notice, see page 1 of the Instructions for Form 1041.

Schedule D (Form 1041) 1985

Part IV Computation of Capital Gain Deduction

18	Net long-term capital gain shown on line 16, column (c)	18		
19	Net short-term capital loss shown on line 15, column (c)	19	(	)
20	Excess of line 18 over line 19	20		
21	Net long-term capital gains taxable to beneficiaries (see instructions)	21		
22	Balance (subtract line 21 from line 20) ▶	22		
23	Enter 60% of the amount on line 22 here and on Form 1041, line 21 *(If this amount is other than zero, you may be liable for the alternative minimum tax. See Form 6251.)*	23		

Part V Computation of Capital Loss Limitation

24 If losses are shown on both lines 13 and 14 which are the result of a long-term capital loss carryover from years beginning before 1970, check here ▶ ☐ and compute the net capital loss on a separate sheet and attach it to this return. See sections 1.1211-1 and 1.1212-1 of the regulations. Enter on line 24a the net capital loss computed on the separate sheet.

Otherwise

a Enter one of the following amounts if there is no long-term capital loss carryover from years beginning before 1970:

(i) If amount on line 15, column (c) is zero or a net gain, enter 50% of amount on line 17, column (c);

(ii) If amount on line 16, column (c) is zero or a net gain, enter amount on line 17, column (c); **or**

(iii) If amounts on line 15, column (c) and line 16, column (c) are net losses, enter amount on line 15, column (c) added to 50% of amount on line 16, column (c) . . . **24a** | |

b Enter here and enter as a (loss) on Form 1041, line 6, the smallest of:

(i) The amount on line 24a;

(ii) $3,000; **or**

(iii) Taxable income computed without regard to capital gains and losses and the deduction for exemption. ▶ **24b** ( )

Part VI Computation of Post-1969 Capital Loss Carryovers from 1985 to 1986

(Complete this part if the loss on line 24a is more than the loss on line 24b)

Section A.—Short-Term Capital Loss Carryover

25	Enter loss shown on line 6; if none, enter zero and skip lines 26 through 29 and go to line 30	25		
26	Enter gain shown on line 14. If that line is blank or shows a loss, enter zero	26		
27	Reduce any loss on line 25 to the extent of any gain on line 26	27		
28	Enter smaller of line 27 or line 24b	28		
29	Subtract line 28 from line 27. This is your short-term capital loss carryover from 1985 to 1986	29		

Section B.—Long-Term Capital Loss Carryover

(Complete this part if there is a loss on line 14)

30	Subtract line 28 from line 24b (**Note:** *If you skipped lines 26 through 29, enter amount from line 24b)*	30		
31	Enter loss from line 14	31		
32	Enter gain shown on line 6. If that line is blank or shows a loss, enter zero	32		
33	Reduce any loss on line 31 to the extent of any gain on line 32	33		
34	Multiply amount on line 30 by 2	34		
35	Subtract line 34 from line 33. This is your long-term capital loss carryover from 1985 to 1986	35		

SCHEDULE J
(Form 1041)

Department of the Treasury
Internal Revenue Service

Information Return
Trust Allocation of an Accumulation Distribution (I.R.C. Section 665)

▶ File with Form 1041.

OMB No. 1545-0092

1985

Name of trust

Employer identification number

Part I Accumulation Distribution in 1985

For definitions and special rules, see the regulations under sections 665-668 of the Internal Revenue Code. See the Form 4970 instructions for certain income minors may exclude and special rules for multiple trusts.

1 Enter amount from Schedule B (Form 1041), line 12, for 1985 . . . . **1**

2 Enter amount from Schedule B (Form 1041), line 9, for 1985 . . . . **2**

3 Enter amount from Schedule B (Form 1041), line 11, for 1985 . . . . **3**

4 Distributable net income for 1985 (subtract line 3 from line 2. If line 3 is more than line 2, enter zero) . . . **4**

5 Accumulation distribution for 1985 (subtract line 4 from line 1) **5**

Part II Ordinary Income Accumulation Distribution (Enter the applicable throwback years below.)

If the distribution is thrown back to more than five years (starting with the earliest applicable tax year beginning after December 31, 1968), attach additional schedules. (If the trust was a simple trust see regulations section 1.665(e)-1A(b).)		**Throwback year ending** 19	**Throwback year ending** 19	**Throwback year ending** 19	**Throwback year ending** 19	**Throwback year ending** 19 ....
6 Distributable net income (see instructions)	**6**					
7 Distributions (see instructions)	**7**					
8 Undistributed net income (subtract line 7 from line 6) . .	**8**					
9 Enter amount from line 25 or line 31, Part III, as applicable .	**9**					
10 Subtract line 9 from line 8 . .	**10**					
11 Enter amount of prior accumulation distributions thrown back to any of these years	**11**					
12 Subtract line 11 from line 10 .	**12**					
13 Allocate the amount on line 5 to the earliest applicable year first. Do not allocate an amount greater than line 12 for the same year	**13**					
14 Divide line 13 by line 10 and multiply result by line 9 . . .	**14**					
15 Add lines 13 and 14	**15**					
16 Tax-exempt interest included on line 13 (see instructions) . .	**16**					
17 Subtract line 16 from line 15	**17**					

For Paperwork Reduction Act Notice, see page 1 of the Instructions for Form 1041.

Schedule J (Form 1041) 1985

Part III Taxes Imposed on Undistributed Net Income (Enter the applicable throwback years below.)

If more than five throwback years are involved, attach additional schedules. If the trust received an accumulation distribution from another trust, see the regulations under sections 665-668 of the Internal Revenue Code.

If trust elected alternative tax on capital gain, **OMIT** line 18 through line 25 **AND** complete line 26 through line 31.		**Throwback year ending** 19........	**Throwback year ending** 19........	**Throwback year ending** 19........	**Throwback year ending** 19........	**Throwback year ending** 19........
(The alternative tax on capital gain was repealed for tax years beginning after December 31, 1978.)						
18 Tax (see instructions)	**18**					
19 Net short-term gain (see instructions)	**19**					
20 Net long-term gain (see instructions)	**20**					
21 Total net capital gain (add line 19 and line 20)	**21**					
22 Taxable income (see instructions)	**22**					
23 Enter percent (divide line 21 by line 22, but not more than 100%)	**23**					
24 Multiply amount on line 18 by percent on line 23	**24**					
25 Tax on undistributed net income (subtract line 24 from line 18 and enter here and on line 9)	**25**					
If trust did not elect alternative tax on long-term capital gain, do **NOT** complete line 26 through line 31.						
26 Tax on income other than long-term capital gain (see instructions)	**26**					
27 Net short-term gain (see instructions)	**27**					
28 Taxable income less section 1202 deduction (see instructions)	**28**					
29 Enter percent (divide line 27 by line 28, but not more than 100%)	**29**					
30 Multiply amount on line 26 by percent on line 29	**30**					
31 Tax on undistributed net income (subtract line 30 from line 26 and enter here and on line 9)	**31**					

Part IV Allocation to Beneficiary

Complete Part IV for each beneficiary. If the accumulation distribution is allocated to more than one beneficiary, attach an additional Schedule J with Part IV completed for each additional beneficiary. If more than five throwback years are involved, attach additional schedules.

Beneficiary's name			Identifying number	
Beneficiary's address (number and street including apartment number or rural route) City, town or post office, state, and ZIP code		Enter amount from line 13 allocated to this beneficiary **(a)**	Enter amount from line 14 allocated to this beneficiary **(b)**	Enter amount from line 16 allocated to this beneficiary **(c)**
32 Throwback year 19	**32**			
33 Throwback year 19	**33**			
34 Throwback year 19	**34**			
35 Throwback year 19	**35**			
36 Throwback year 19	**36**			
37 Total (add amounts on line 32 through line 36)	**37**			

SCHEDULE K–1
(Form 1041)

Department of the Treasury
Internal Revenue Service

Beneficiary's Share of Income, Deductions, Credits, etc.—1985

for the calendar year 1985, or fiscal year

beginning ...., 1985, ending ...., 19 .....

Complete a separate Schedule K-1 for each beneficiary

OMB No. 1545-0092

1985

Name of estate or trust ▶

Beneficiary's identifying number ▶	**Estate or trust's employer identification number ▶**
Beneficiary's name, address, and ZIP code	Fiduciary's name, address, and ZIP code

Your income from a fiscal year estate or trust must be included in your tax year during which the fiscal year of the estate or trust ends.

(a) Allocable share item		**(b)** Amount	**(c)** Form 1040 filers enter the amounts in column (b) on:
1 Dividends (amount before exclusion)			Schedule B, Part II, line 4
2 a Net short-term capital gain or (loss)			Schedule D, line 4, column (f) or (g)
b Net long-term capital gain or (loss)			Schedule D, line 12, column (f) or (g)
3 Interest			
4 Other taxable income (itemize):			
a (1)			
(2)			
b Total (add lines 3, 4a(1) and (2))			
c Depreciation (including cost recovery) and depletion			
d Amortization deductions (itemize):			
(1)			
(2)			
e Total (subtract lines 4c, 4d(1) and (2) from line 4b)			Schedule E, Part II
5 Estate tax deduction (attach computation)			Schedule A, line 22
6 Excess deductions on termination (attach computation)			Schedule A, line 22
7 Tax preference items:			
a Accelerated depreciation on:			
(1) Real property			Form 6251, line 4c
(2) Personal property subject to a lease			Form 6251, line 4d
b Depletion			Form 6251, line 4i
c Other (itemize):			
(1)			Enter on applicable line of Form 6251
(2)			Enter on applicable line of Form 6251
8 Foreign taxes (list on a separate sheet)			Form 1116 or Schedule A (Form 1040), line 9
9 Property eligible for investment credit:			
Cost or other basis of new recovery property	**a** 3-Year		Form 3468, line 1a
	b Other		Form 3468, line 1b
Cost of used recovery property	**c** 3-Year		Form 3468, line 1c
	d Other		Form 3468, line 1d
Section 48(q) Election to Reduce Credit (instead of adjusting basis)	**e** 3-Year		Form 3468, line 1e
	f Other		Form 3468, line 1f
	g 3-Year		Form 3468, line 1g
	h Other		Form 3468, line 1h
Nonrecovery property (see instruction 9) (attach schedule)			
10 Other (itemize):			
a			Enter on applicable line of appropriate tax form
b			
c			
d			
e			
f			

For Paperwork Reduction Act Notice, see page 1 of the instructions for Form 1041.

Schedule K-1 (Form 1041) 1985

Instructions for Beneficiary Filing Form 1040

General Instructions

Name, Address, and Identifying Number.—Your name, address, and identifying number, the estate or trust name, address, and identifying number should have been entered on the Schedule K-1 you received.

Tax Shelters.—If you receive a copy of **Form 8271**, Investor Reporting of Tax Shelter Registration Number, and other tax shelter information from the estate or trust, or if the estate or trust is a tax shelter required to register under section 6111, see the Instructions for Form 8271 to determine your reporting requirements.

Errors.—If you believe the estate or trust has made an error on your Schedule K-1, notify the fiduciary of the estate or trust and ask for a corrected Schedule K-1. Do not change any items on your copy. Be sure that the estate or trust sends a copy of the corrected Schedule K-1 to the IRS.

Specific Instructions

Lines 1–10.—Report the amount from line 1 (Schedule K-1) on your Schedule B (Form 1040), Part II, line 4. Report the amount from line 2a (Schedule K-1) on your Schedule D (Form 1040), line 4, column f or g. Report the amount from line 2b (Schedule K-1) on your Schedule D (Form 1040), line 12, column f or g. Report the amount from line 4e (Schedule K-1) on your Schedule E (Form 1040), Part II. Report on your appropriate tax form or schedule any other applicable items indicated on your Schedule K-1 according to the references printed or written on Schedule K-1.

If you have income from a fiscal year estate or trust, you must include it in income for the tax year during which the fiscal year of the estate or trust ends. For example, if the trust's fiscal year ends on June 30, 1985, you should report your income from the trust on your 1985 Form 1040. A fiscal year will be indicated at the top of your Schedule K-1 (Form 1041) by the dates shown on the fiscal year beginning and ending lines.

Line 9. Property Eligible for Investment Credit.—Your share of the estate's or trust's investment in property that qualifies for the investment credit should be entered. You can claim a tax credit based on your pro rata share of this investment by filing **Form 3468**, Computation of Investment Credit. (For more information, see Form 3468 and the related instructions.)

In addition to the qualifying property reported on lines 9a through 9h, if applicable, the estate or trust will give you a separate schedule that shows your share of the estate's or trust's investment in nonrecovery property, new commuter highway vehicle property, used commuter highway vehicle property, qualified rehabilitation expenditures and energy property that qualifies for the credit, and where to report it.

Line 10a–f.

Tax-exempt income.—If any tax-exempt income is entered on these lines by the estate or trust then you should report those amounts as a memo entry in the space to the left of Form 1040, line 21, if appropriate. This tax-exempt income figure is provided to assist retired individuals in figuring the taxable portion (if any) of their social security or railroad retirement benefits (see instructions to Form 1040, lines 21a and b).

Gross farming and fishing income.—The amount of gross farming and fishing income is included in "Other Income" on line 4. This income must also be separately stated on line 10 to assist beneficiaries in determining if they are subject to a penalty for underpayment of estimated tax.

- Individual Beneficiaries.—An individual beneficiary must report the income on Schedule E (Form 1040), Part IV, line 37.
- Beneficiaries that are Estates or Trusts.—Beneficiaries who are estates or trusts must pass through the amount of gross farming and fishing income included on line 10 of their Schedule K-1s to line 10 of their beneficiary's Schedule K-1s on a pro rata basis.

Note: *The fiduciary's instructions are contained in the Form 1041 instructions.*

Form **1065**

Department of the Treasury
Internal Revenue Service

U.S. Partnership Return of Income

▶ For Paperwork Reduction Act Notice, see Form 1065 Instructions.

For calendar year 1985, or fiscal year beginning ________________, 1985, and ending ______________, 19___

OMB No. 1545-0099

1985

A Principal business activity	**Use IRS label. Otherwise, please print or type.**	Name	D Employer identification number
B Principal product or service		Number and street	E Date business started
C Business code number		City or town, state, and ZIP code	F Enter total assets at end of tax year $

G Check method of accounting: **(1)** ☐ Cash **(2)** ☐ Accrual **(3)** ☐ Other

H Check applicable boxes: **(1)** ☐ Final return **(2)** ☐ Change in address **(3)** ☐ Amended return

I Number of partners in this partnership ▶ ___________

		Yes	No
J	Is this partnership a limited partnership (see page 3 of Instructions)?		
K	Is this partnership a partner in another partnership?		
L	Are any partners in this partnership also partnerships?		
M	Does the partnership meet **all** the requirements shown on page 5 of the Instructions under **Question M**		

		Yes	No
N	Was there a distribution of property or a transfer of a partnership interest during the tax year? If "Yes," see page 5 of the Instructions concerning an election to adjust the basis of the partnership's assets under section 754.		
O	At any time during the tax year, did the partnership have an interest in or a signature or other authority over a bank account, securities account, or other financial account in a foreign country (see page 5 of Instructions)? If "Yes," write the name of the foreign country ▶ ______________		
P	Was the partnership the grantor of, or transferor to, a foreign trust which existed during the current tax year, whether or not the partnership or any partner has any beneficial interest in it? If "Yes," you may have to file Forms 3520, 3520-A, or 926 (see page 5 of Instructions).		
Q	Check this box if the partnership has filed or is required to file **Form 8264,** Application for Registration of a Tax Shelter. ☐	▨	▨

Income

1a	Gross receipts or sales $ ____________ **1b** Minus returns and allowances $ ___________ Balance ▶	**1c**	
2	Cost of goods sold and/or operations (Schedule A, line 7)	2	
3	Gross profit (subtract line 2 from line 1c)	3	
4	Ordinary income (loss) from other partnerships and fiduciaries	4	
5	Taxable interest and nonqualifying dividends	5	
6a	Gross rents $ ____________ **6b** Minus rental expenses (attach schedule) $ ____________		
c	Balance net rental income (loss) ▶	6c	
7	Net income (loss) from royalties (attach schedule)	7	
8	Net farm profit (loss) (attach Schedule F (Form 1040))	8	
9	Net gain (loss) (Form 4797, line 17)	9	
10	Other income (loss)	10	
11	**TOTAL** income (loss) (combine lines 3 through 10)	11	

Deductions

12a	Salaries and wages (other than to partners) $ __________ **12b** Minus jobs credit $ __________ Balance ▶	12c	
13	Guaranteed payments to partners (see page 7 of Instructions)	13	
14	Rent	14	
15a	Total deductible interest expense not claimed elsewhere on return (see page 7 of Instructions) — **15a** ______	▨	
b	Minus interest expense required to be passed through to partners on Schedule K-1(1065), lines 10, 15a (2), and 15a(3) — **15b** ______	▨	
c	Balance ▶	15c	
16	Taxes	16	
17	Bad debts (see page 7 of Instructions)	17	
18	Repairs	18	
19a	Depreciation from Form 4562 (attach Form 4562) $ ______________ **19b** Minus depreciation claimed on Schedule A and elsewhere on return $ ______________ Balance ▶	19c	
20	Depletion (***Do not deduct oil and gas depletion.*** See page 8 of Instructions.)	20	
21a	Retirement plans, etc. (see page 8 of Instructions)	21a	
b	Employee benefit programs (see page 8 of Instructions)	21b	
22	Other deductions (attach schedule)	22	
23	**TOTAL** deductions (add amounts in column for lines 12c through 22)	23	
24	Ordinary income (loss) (subtract line 23 from line 11)	24	

Please Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

▶ ______________________ Signature of general partner ▶ ____________ Date

Paid Preparer's Use Only

Preparer's signature ▶	Date	Check if self-employed ▶ ☐	Preparer's social security no.
Firm's name (or yours, if self-employed) and address ▶		E.I. No. ▶	
		ZIP code ▶	

Schedule A Cost of Goods Sold and/or Operations (See Page 8 of Instructions.)

1	Inventory at beginning of year	1	
2	Purchases minus cost of items withdrawn for personal use	2	
3	Cost of labor	3	
4	Other costs (attach schedule)	4	
5	Total (add lines 1 through 4)	5	
6	Inventory at end of year	6	
7	Cost of goods sold (subtract line 6 from line 5). Enter here and on page 1, line 2	7	

8a Check all methods used for valuing closing inventory:

(i) ☐ Cost

(ii) ☐ Lower of cost or market as described in regulations section 1.471-4 (see page 8 of Instructions)

(iii) ☐ Writedown of "subnormal" goods as described in regulations section 1.471-2(c) (see page 9 of Instructions)

(iv) ☐ Other (specify method used and attach explanation) ▶ ....

b Check if the LIFO inventory method was adopted this tax year for any goods (if checked, attach Form 970) ☐

c If you are engaged in manufacturing, did you value your inventory using the full absorption method (regulations section 1.471-11)? ☐ Yes ☐ No

d Was there any change in determining quantities, cost, or valuations between opening and closing inventory? ☐ Yes ☐ No
If "Yes," attach explanation.

Schedule B Distributive Share Items (See Pages 9-11, and 14 of Instructions.)

	(a) Distributive share items		(b) Total amount
1	Net long-term capital gain (loss)	1	
2	Other net gain (loss) under section 1231 and specially allocated ordinary gain (loss)	2	
3a	If the partnership had income from outside the United States, enter the name of the country or U.S. possession ▶	▨	
b	Total gross income from sources outside the United States	3b	

Schedule L Balance Sheets

(See Pages 5 and 9 of Instructions and Question M on Page 1 Before Completing Schedules L and M.)

		Beginning of tax year		End of tax year	
	Assets	(a)	(b)	(c)	(d)
1	Cash	▨		▨	
2	Trade notes and accounts receivable		▨		▨
a	Minus allowance for bad debts				
3	Inventories	▨		▨	
4	Federal and state government obligations	▨		▨	
5	Other current assets (attach schedule)	▨		▨	
6	Mortgage and real estate loans	▨		▨	
7	Other investments (attach schedule)	▨		▨	
8	Buildings and other depreciable assets		▨		▨
a	Minus accumulated depreciation				
9	Depletable assets		▨		▨
a	Minus accumulated depletion				
10	Land (net of any amortization)	▨		▨	
11	Intangible assets (amortizable only)		▨		▨
a	Minus accumulated amortization				
12	Other assets (attach schedule)	▨		▨	
13	**TOTAL** assets	▨		▨	
	Liabilities and Capital	▨		▨	
14	Accounts payable	▨		▨	
15	Mortgages, notes, and bonds payable in less than 1 year	▨		▨	
16	Other current liabilities (attach schedule)	▨		▨	
17	All nonrecourse loans	▨		▨	
18	Mortgages, notes, and bonds payable in 1 year or more	▨		▨	
19	Other liabilities (attach schedule)	▨		▨	
20	Partners' capital accounts	▨		▨	
21	**TOTAL** liabilities and capital	▨		▨	

Schedule M Reconciliation of Partners' Capital Accounts (See Page 9 of Instructions.)

(Show reconciliation of each partner's capital account on Schedule K-1 (Form 1065), Question G.)

(a) Capital account at beginning of year	(b) Capital contributed during year	(c) Ordinary income (loss) from page 1, line 24	(d) Income not included in column (c), plus nontaxable income	(e) Losses not included in column (c), plus unallowable deductions	(f) Withdrawals and distributions	(g) Capital account at end of year

1985

Department of the Treasury
Internal Revenue Service

Instructions for Form 1065

U.S. Partnership Return of Income

(Section references are to the Internal Revenue Code, unless otherwise noted.)

Paperwork Reduction Act Notice

We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Voluntary Contributions to Reduce the Public Debt

Quite often inquiries are received about how voluntary contributions to reduce the public debt may be made. A partnership may contribute by enclosing a check, payable to "Bureau of the Public Debt," with the tax return. These amounts are tax deductible, subject to the rules and limitations for charitable contributions.

Changes You Should Note

- **New Reporting Requirements.** All partnerships claiming either a deduction or credit for automobiles or other "listed property" are required to complete the appropriate sections of Part III of **Form 4562,** Depreciation and Amortization.
- **Reduced Depreciation for Vehicles.** For automobiles placed in service after April 2, 1985, the depreciation deduction for each vehicle, including any section 179 expense deduction, is limited to $3,200 in the first tax year, and $4,800 in each succeeding tax year. These limitations are further reduced if your business and/or investment use is less than 100%. See Form 4562 and instructions for details.
- **New Limitations for Investment Tax Credit.** For an automobile leased or placed in service after April 2, 1985, the investment tax credit amount is limited to $675. This amount is further limited to $450 if the taxpayer elects not to decrease the basis for depreciation purposes. See **Form 3468,** Computation of Investment Credit, and instructions for details.
- **Taxable Fringe Benefits.** If you provided a **Form W-2,** Wage and Tax Statement, to your employees because of taxable fringe benefits such as personal use of a car, do not include as wages the amount allocated for depreciation and other expenses that you claimed elsewhere on Form 1065.
- **Form 8308.** If there is a sale or exchange of a partnership interest after December 31, 1984, which includes unrealized receivables or substantially appreciated inventory items, get **Form 8308**, Report of a Sale or Exchange of Certain Partnership Interests. See page 4 of Form 1065 instructions, for additional information.
- **Changes in Service Center Addresses.** Filers from Arkansas, California, Kentucky, Minnesota, and West Virginia should note the new filing addresses listed in the **Where to File** instructions.

Reminders

- Use the pre-addressed label and envelope that comes with the tax package to help speed the processing of the partnership return.
- Schedule K is required only when more than ten Schedules K-1 are attached to Form 1065.
- Do not take a deduction for any qualified expenditures to which an election under section 58(i) applies. Instead, pass the information needed to compute this deduction through to the partners on the schedule attached for line 17 of Schedules K and K-1. The partners will report the deductible amount, if any, on their own returns. See the instructions for line 17 of Schedules K and K-1 on page 15, for more information.
- For purposes of the alternative minimum tax, a limited partner's share of the partnership's qualified investment income and qualified investment expenses includes the income and expenses from the partnership's trade or business.
- Do not deduct depletion on oil and gas wells on the partnership return. Instead, pass the information needed to compute this deduction through to the partners on Schedule K-1. The partners will determine the deductible amount on their own returns.
- **Penalty for Failure to Furnish Copies of Schedule K-1 (Form 1065) to Partners.** For tax years **beginning after** December 31, 1984, a penalty may be imposed on the partnership for each failure to furnish a statement under section 6031(b) unless the failure is due to reasonable cause and not willful neglect. The penalty is $50 for each statement not furnished, but not to exceed $50,000 in any calendar year.
- **Disguised Sales.** Special rules apply to situations in which a partner is deemed to be engaging in a transaction with a partnership other than in the partner's capacity as a member of such partnership. For additional information, see Partner's Dealing with Partnership in **Publication 541**.

Registration of Tax Shelters

If the partnership is a tax shelter, or if the partnership is involved in a tax shelter, or if the partnership is considered to be the organizer of a tax shelter, or if the partnership is a pass-through entity of tax shelter benefits, there are reporting requirements under section 6111 for both the partnership and its partners.

See **Form 8264**, Application for Registration of a Tax Shelter, and **Form 8271**, Investor Reporting of Tax Shelter Registration Number, and their related instructions for information the partnership must provide to IRS and to the partners to enable them to comply with these reporting requirements.

The tax shelter registration number has been added to Schedule K-1 (Form 1065) for 1985 as Question F. The partnership must complete this line for all partners, if applicable. Also complete Question Q on Form 1065.

Purpose of Form

Form 1065 is used to report the income, deductions, gains, losses, etc., from the operation of a partnership. Form 1065 for 1985 is an information return for the calendar year 1985 or other fiscal year beginning in 1985. However, if the partnership has a tax year of less than 12 months that begins and ends in 1986, and the 1986 Form 1065 is not available by the time the partnership is required to file its return, the partnership may use the 1985 form. The partnership must show its 1986 tax year on the 1985 Form 1065 and incorporate any tax law changes that are effective for tax years beginning after December 31, 1985.

Who Must File

Every partnership that engages in a trade or business or has income from sources in the United States must file Form 1065. A partnership must file even if its principal place of business is outside the United States or all its members are nonresident aliens.

Religious and apostolic organizations that are exempt from income tax under section 501(d) must file Form 1065.

A partnership that does no business in the United States and receives no income from U.S. sources is not required to file unless it has any U.S. persons as partners who must take partnership items into account when determining their tax liability. Losses or credits from a partnership that fails to file a return may be disallowed in certain circumstances (see section 6231(f)).

A syndicate, pool, joint venture, or similar organization that elects under section 761(a) not to be treated as a partnership is not required to file Form 1065 except for the year of the election. To qualify for the election the organization must be:

- An investing unincorporated organization;
- An organization that participates in the joint production, extraction, or use of property under an operating agreement; or
- An organization that deals in securities for a short period for the purpose of underwriting, selling, or distributing a particular issue of securities.

To make the election, the organization should attach a statement to Form 1065 explaining that it is an organization described under section 761(a) and does not want to be treated as a partnership.

In addition, if the partnership made the election under section 761(a), an individual partner may elect to treat his or her share of development costs as deferred expenses. See Revenue Ruling 83-129, 1983-2 C.B. 105, for more information.

Each partner must prove, if requested by the IRS, that they have fully reported their share of the income, deductions and credits of the partnership on their timely-filed income tax return. See Rev. Proc. 84-35, 1984-1 C.B. 509, for more information. (See **Publication 541,** Tax Information on Partnerships, for more information.)

Note: *If a partnership return is filed by an entity for a tax year, but it is determined that the entity is not a partnership for that tax year, sections 6221 through 6233 will apply to that entity and to persons holding an interest in that entity to the extent provided by regulations. See section 6233 for more information.*

When to File

A resident partnership must file Form 1065 by the 15th day of the 4th month following the close of its tax year. A partnership whose partners are all nonresident aliens must file its return by the 15th day of the 6th month following the close of its tax year.

If you need more time to file a partnership return, file **Form 2758,** Application for Extension of Time To File, by the regular due date of the partnership return.

To change a partnership's tax year, or to adopt an initial tax year for a new partnership, see section 706(b), Revenue Procedure 83-76, 1983-2 C.B. 594, Revenue Procedure 72-51, 1972-2 C.B. 832 and **Form 1128,** Application for Change in Accounting Period. See **Publication 538**, Accounting Periods and Methods, for more information.

Where to File

Use the addressed envelope that came with the return. If you do not have an addressed envelope, or if the partnership moved during the year, use the Internal Revenue Service Center address for the state where the partnership's principal place of business or principal office or agency is located. No street address is necessary. See the following list of Service Centers.

A partnership without a principal office or agency or principal place of business in the United States must file its return with the Internal Revenue Service Center, Philadelphia, PA 19255.

If the partnership's principal place of business or principal office or agency is located in ▼	Use the following address ▼
New Jersey, New York City and counties of Nassau, Rockland, Suffolk, and Westchester	Holtsville, NY 00501
New York (all other counties), Connecticut, Maine, Massachusetts, Minnesota, New Hampshire, Rhode Island, Vermont	Andover, MA 05501
Alabama, Florida, Georgia, Mississippi, South Carolina	Atlanta, GA 31101
Kentucky, Michigan, Ohio, West Virginia	Cincinnati, OH 45999
Kansas, Louisiana, New Mexico, Oklahoma, Texas	Austin, TX 73301
Alaska, Arizona, California (counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo, and Yuba), Colorado, Idaho, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	Ogden, UT 84201
California (all other counties), Hawaii	Fresno, CA 93888
Illinois, Iowa, Missouri, Wisconsin	Kansas City, MO 64999
Arkansas, Indiana, North Carolina, Tennessee, Virginia	Memphis, TN 37501
Delaware, District of Columbia, Maryland, Pennsylvania	Philadelphia, PA 19255

Penalty

A penalty is assessed against the partnership if the partnership is required to file a partnership return and it (1) fails to file the return on time, including extensions, or (2) files a return that fails to show all the information required, unless the failure is due to reasonable cause. The amount of the penalty for each month or fraction of a month (for a maximum of 5 months) the failure continues is $50 multiplied by the total number of persons who were partners in the partnership during any part of the partnership's tax year for which the return is due. This penalty will not be imposed on certain small partnerships if they meet the required procedures under Revenue Procedure 84-35, 1984-1 C.B. 509.

Family-farm partnerships, family-owned wholesale or retail store partnerships, co-owners of investment property, etc., may not have to file Schedules L and M. See the instructions on page 5 for Question M before completing Schedules L and M.

If the partnership has a short tax year for which a return is due before Form 1065 for 1986 is available, see **Purpose of Form.**

General Information

Note: *In addition to those publications listed throughout these instructions, you may wish to get:* ***Publication 334****, Tax Guide for Small Business;* ***Publication 535****, Business Expenses;* ***Publication 536****, Net Operating Losses and the At-Risk Limits;* ***Publication 541****, Tax Information on Partnerships;* ***Publication 550****, Investment Income and Expenses; and* ***Publication 556****, Examination of Returns, Appeal Rights, and Claims for Refund.*

Unresolved Tax Problems

IRS has a Problem Resolution Program for taxpayers who have been unable to resolve their problems with IRS. If the partnership has a tax problem it has been unable to resolve through normal channels, write to the partnership's local IRS District Director or call the partnership's local IRS office and ask for Problem Resolution assistance. This office will take responsibility for your problem and ensure that it receives proper attention. Although the Problem Resolution Office cannot change the tax law or technical decisions, it can frequently clear up misunderstandings that resulted from previous contacts.

Accounting Methods

Figure ordinary income by the accounting method regularly used in maintaining the partnership's books and records. The method must clearly reflect income. (See section 446.) Unless allowed otherwise by law, the partnership may not change the accounting method used to report income in earlier years (for income as a whole or for any material item) without first getting consent on **Form 3115**, Application for Change in Accounting Method. See **Publication 538**, Accounting Periods and Methods, for more information.

See Revenue Procedures 85-36 and 37, 1985-30 I.R.B. 25 and 29, for information on how partnerships may obtain expeditious consents to change their overall method of accounting from the cash receipts and disbursements method to the accrual method.

Note: *See section 446 regarding failure to request a change of accounting method.*

See Revenue Procedure 85-8, 1985-6 I.R.B. 41, Revenue Procedure 83-54, 1983-2 C.B. 569, and Revenue Procedure 82-32, 1982-1 C.B. 486 for information on certain changes in accounting methods that do not require advance written consent from the IRS in order to make a change.

For information on the method of accounting for interest income and interest expense on loans for which the partnership reports interest income or interest expense in accordance with the Rule of 78s computation, see the following: Publication 538; **Publication 545**, Interest Expense; and Revenue Procedures 84-27, 28, 29, and 30, 1984-1 C.B. 469, 475, 480 and 482 respectively.

Generally, an accrual basis taxpayer can deduct accrued expenses in the tax year that all events have occurred that determine the liability and the amount of the liability can be figured with reasonable accuracy. However, generally after July 18, 1984, all the events that establish liability for the amount are treated as occurring only when economic performance takes place. There are exceptions for recurring items. A partnership may elect to treat the application of section 461(h) as a change of accounting method. See section 461(h).

Rounding Off to Whole-Dollar Amounts

You may show the money items on the return and accompanying schedules as whole-dollar amounts. To do so, drop any amount less than 50 cents and increase any amount from 50 cents through 99 cents to the next higher dollar.

Recordkeeping

The partnership records must be kept as long as their contents may be material in the administration of any Internal Revenue law. Copies of the filed tax returns should also be kept as part of the partnership's records. Please see **Publication 583**, Information for Business Taxpayers, for more information.

Amended Return

If, after the partnership files its return, it later becomes aware of any changes it must make to income, deductions, credits, etc., the partnership should file an amended Form 1065 and an amended Schedule K-1 for each partner to change the forms already filed. Check the box at Question H(3), page 1, Form 1065. Give a corrected Schedule K-1 (Form 1065) to each partner labeled "Amended."

Note: *If a partnership does not meet the small partnership exception under section 6231 or makes the election described in section 6231(a)(1)(B)(ii), the amended return will be a request for administrative* *adjustment and must be filed by the Tax Matters Partner. See section 6227 for more information.*

If the partnership's Federal return is changed for any reason, it may affect its State return. This would include changes made as a result of an examination of the partnership return by the IRS. Contact the State tax agency where the State return is filed for more information.

Information Returns

Every partnership must file information returns if it makes payments of rents, commissions, or other fixed or determinable income totalling $600 or more to any one person in the course of its trade or business during the calendar year. It must generally report interest payments if they total $10 or more.

For example, if the partnership pays an individual $600 or more in any calendar year to perform services under a subcontract type of arrangement in which no employment taxes are withheld, the partnership must file **Form 1099-MISC**, Statement for Recipients of Miscellaneous Income.

Use **Form 1096**, Annual Summary and Transmittal of U.S. Information Returns, to summarize and send information returns to the Internal Revenue Service Center. For more information about filing information returns and exceptions, see the Instructions for Form 1099 Series, 1098, 5498, and 1096 and **Publication 916,** Information Returns.

Note: *If the partnership, in the course of its trade or business, received $600 or more of mortgage interest from any individual in any calendar year, it is required to file a return to report the interest received. See section 6050H and* **Form 1098,** *Mortgage Interest Statement, for more information.*

If the partnership, in the course of its trade or business, received more than $10,000 cash in one transaction (or two or more related transactions), it is required to file a return to report the transaction(s). See section 6050I and **Form 8300**, Report of *Cash Payments Over $10,000 Received in a Trade or Business, for more information.*

If the partnership, in connection with trade or business, lends money that is secured by property in which it acquires an interest in full or partial satisfaction of any indebtedness, or if the partnership knows the property has been abandoned, it is required to file a return for each acquisition or abandonment. See section 6050J and **Form 1099-A**, *Information Return for Acquisition or Abandonment of Secured Property, for more information.*

U.S. partnerships that have an interest in a foreign corporation may be required to file **Form 5471,** *Information Return with Respect to a Foreign Corporation. For specific filing requirements, see Form 5471 and its instructions.*

Attachments

If you need more space on the forms or schedules, attach separate sheets. Use the same arrangement as the printed forms, and **show the totals on the printed forms**. Be sure to put the partnership's name and employer identification number on each sheet.

To assist us in processing the return, we ask that you complete every applicable entry space on Form 1065. Please, do not attach statements and write "See Attached" in lieu of completing the entry spaces on this form and schedules.

Definitions

Partnership. A partnership is the relationship between two or more persons who join together to carry on a trade or business, with each person contributing money, property, labor, or skill and each expecting to share in the profits and losses of the business whether or not a formal partnership agreement is made.

The term "partnership" includes a limited partnership, syndicate, group, pool, joint venture, or other unincorporated organization, through or by which any business, financial operation, or venture is carried on, that is not, within the meaning of the Internal Revenue Code, a corporation, trust, estate, or sole proprietorship. If an organization more nearly resembles a corporation than a partnership or trust, it is considered an association taxed as a corporation.

Important factors in determining if a partnership exists include:

- The parties' conduct in carrying out the provisions of the partnership agreement;
- The testimony of disinterested persons;
- The relationship of the parties;
- The abilities and contributions of each; and
- The control each has over the partnership income and the purpose for which the income is used.

A joint undertaking merely to share expenses is not a partnership. Mere co-ownership of property that is maintained and leased or rented is not a partnership. However, if the co-owners provide services to the tenants, a partnership exists.

Some partnerships **may be** excluded completely or partially from being treated as partnerships for Federal income tax purposes upon the election of all the members. See **Who Must File** on page 1 and Publication 541 for more information.

General Partner. A general partner is a member of the organization who is personally liable for the obligations of the partnership.

Limited Partner. A limited partner is one whose potential personal liability for partnership debts is limited to the amount of money or other property that the partner contributed or is required to contribute to the partnership.

Limited Partnership. A limited partnership is a partnership composed of at least one general partner and one or more limited partners.

Nonrecourse Loans. Nonrecourse loans are those liabilities of the partnership for which none of the partners have any personal liability.

Section 702(a) Items

Under section 702(a), the partners are required to take into account separately their distributive shares, whether or not distributed, of:

1. Gains and losses from sales or exchanges of capital assets held for 6 months or less (1 year or less if acquired before June 23, 1984);
2. Gains and losses from sales or exchanges of capital assets held for more than 6 months (more than 1 year if acquired before June 23, 1984);
3. Gains and losses from sales or exchanges of property described in section 1231;
4. Charitable contributions;
5. Qualifying dividends (section 116);
6. Taxes described in section 901;
7. Other items of income, gain, loss, deduction, or credit, to the extent provided by regulations (see the instructions for Schedules K and K-1 on pages 9–15); and
8. Taxable income or loss (ordinary income or loss) other than items 1 through 7 above.

Elections

Generally, the partnership decides how to figure taxable income from its operations. For example, it chooses the accounting method and depreciation methods it will use. The partnership also makes the elections under the following sections:

- Section 1033 provides for an election by the partnership not to recognize gain when property is compulsorily or involuntarily converted into property (other than similar property) or into money to the extent it is reinvested in similar property.
- Under section 703(b) of the Code, the election for separate property treatment for oil and gas property is made by the partnership. Thus, the partnership must make the section 614 election before the partners compute their individual depletion allowances under section 613A(c)(7)(D) of the Code. See Revenue Ruling 84-142, 1984-2 C.B. 117. See the instructions on page 15 for Schedules K and K-1, line 17, item c., for the information on oil and gas depletion that must be supplied to the partners by the partnership.
- Section 754 provides rules under which a partnership may elect to adjust: (a) the basis of its remaining assets when assets distributed to a partner have increased or decreased in value; (b) a new partner's share of the basis of partnership assets to reflect the purchase price paid by a new partner for the new partner's interest; or (c) an estate's or other beneficiary's share of the basis of partnership assets to reflect a change in the basis of a partnership interest on the death of a partner. See regulation section 1.754-1(b) . See the instructions on page 5 for Question N for more information.
- Section 179 provides for an election by the partnership to expense the cost of certain depreciable property. The partnership passes this amount through to the partners. See Form 4562 for more information.

Information about other elections may be found under the applicable sections of Chapter 1 of the Code and the Income Tax Regulations.

Elections under the following Code sections are made by a partner separately on the partner's tax return and not by the partnership:

- Section 57(c) (definition of net lease);
- Section 108(b)(5) or 108(d)(4) (income from discharge of indebtedness);

- Section 163(d)(6) (limitation on interest on investment indebtedness);
- Section 617 (deduction and recapture of certain mining exploration expenditures paid or incurred); and
- Section 901 (foreign tax credit).

In addition, individual partners (including estates and trusts) may make an election under section 58(i) to deduct ratably over the period of time specified in section 58(i) certain qualified expenditures. See the instructions for Schedules K and K-1, line 17, item g., for more information.

Distribution of Unrealized Receivables and Inventory Items

If a partnership distributes unrealized receivables or substantially appreciated inventory items for all or part of a partner's interest in other partnership property (including money), treat the transaction as a sale or exchange between the partner and the partnership. Treat the partnership gain (loss) as ordinary income (loss). Allocate it only to partners (other than the distributee partner) who will take this amount into account separately under section 702(a)(7).

If a partnership gives other property (including money) for all or part of that partner's interest in the partnership's unrealized receivables or substantially appreciated inventory items, treat the transaction as a sale or exchange of the property. See section 751 and the related regulations for definitions of unrealized receivables and substantially appreciated inventory items.

If a partner sells or exchanges a partnership interest where unrealized receivables or substantially appreciated inventory items are involved, the transferor partner must notify the partnership, in writing, within 14 days of the exchange. See Form 8308 for the types of unrealized receivables involved. These include depreciation recapture, depletable properties, farm land, etc.

See Revenue Ruling 84-102, 1984–2 C.B. 119, for information when a new partner joins a partnership that has liabilities and unrealized receivables. Also, see section 6050K and Publication 541 for more information.

Furthermore, see section 751(f) for special rules in the case of tiered partnerships for section 751 exchanges.

Net Operating Loss Deduction

A partnership is not allowed the deduction for net operating losses.

Contributions to the Partnership

Generally, no gain (loss) is recognized to the partnership or any of the partners when property is given to the partnership in exchange for an interest in the partnership. This rule does not apply to any gain realized on a transfer of property to a partnership that would be treated as an investment company (within the meaning of section 351) if the partnership were incorporated.

The basis to the partnership of property given by a partner is the adjusted basis in the hands of the partner at the time it was given, plus any gain recognized (under section 721(b)) to the partner at that time. (See section 723 for more information.)

Note: *See section 704(c) for the new rules regarding partnership allocations with respect to contributed property.*

If a partner contributed unrealized receivables, inventory items, or capital loss property to the partnership, see section 724.

Production Costs of Films, Books, Records, or Similar Property

Except for production costs charged to a capital account, expenses for the production of a film, sound recording, book, or similar property are deductible only in those tax years in which the partnership reasonably may expect to receive most of the income from the property. See section 280 for definitions and how to figure the deduction for the year.

Payments Subject to Withholding at Source

If there are any nonresident alien individuals, foreign partnerships, or foreign corporations as partners, and the partnership has items which constitute gross income from sources within the United States (see sections 638 and 861 through 864), see **Form 1042,** U.S. Annual Return of Income Tax To Be Paid at Source.

Form 8288, U.S. Withholding Tax Return for Dispositions by Foreign Persons of U.S. Real Property Interests, is used by the partnership to transmit the withholding on the sale of U.S. real property by foreign persons. At the same time that Form 8288 is completed an information return, **Form 8288-A**, Statement of Withholding on Dispositions by Foreign Persons of U.S. Real Property Interests, is attached and sent to the IRS. See section 1445 and related regulations for additional information.

International Boycotts

Under section 999(a) you may be required to file **Form 5713,** International Boycott Report, if you are:

- a partnership,
- a partner in a partnership, or
- a partnership that is a U.S. shareholder in a foreign corporation, AND you have operations in or with —
  - a country,
  - the government of a country,
  - a company, or
  - a national of a country

that requires participation in, or cooperation with, an international boycott as a condition of doing business.

The partnership must give each partner a copy of the Form 5713 filed by the partnership if there has been participation in, or cooperation with, an international boycott.

Designation of Tax Matters Partner (TMP)

A partnership may designate a general partner as the TMP for a specific partnership tax year by attaching a statement to the return that:

- Identifies by name, address, and taxpayer identification number, the partnership and the general partner designated as the TMP, **and**
- Declares that the attached statement is a designation of a tax matters partner for the tax year to which the return relates (a partnership may not designate a TMP for any tax year other than the year for which the return is being filed), **and**
- Is signed by the general partner who signs the partnership return.

Windfall Profit Tax

Do not enter any windfall profit tax or any overpayment of windfall profit tax on Form 1065, page 1, or on any of the numbered lines on Schedules K or K-1. Generally, the partnership will notify each partner on **Form 6248,** Annual Information Return of Windfall Profit Tax–1985, of any income tax deduction for windfall profit tax. Generally, each partner determines if he or she is entitled to a refund of overpaid windfall profit tax. Each partner files **Form 6249,** Computation of Overpaid Windfall Profit Tax, to obtain a refund. However, if the partnership elects to be treated as authorized to act on behalf of the partners, the regulations under section 6232 and Revenue Procedure 84-4, 1984-1 C.B. 363, will apply. Partnerships must file **Form 843**, Claim, to receive the credit or refund.

Include the partners' income tax deduction for the partnership's tax year in column (e) of Schedule M or on the statement attached for Schedule K (see page 15 of the instructions for line 17, item j.), whichever applies. If the partnership files on a fiscal year basis, the amount entered in column (e), or on the attached statement, will not be the same as the amount shown on the Form 6248 that the partnership gives to each partner. Enter each partner's share in column (e) of Question G on Schedule K-1 (Form 1065), or on the statement attached for Schedule K-1, line 17, item j., whichever applies.

Include any overpayment of windfall profit tax the partnership received and of which you notified the partners in column (d) of Schedule M or on the statement attached for Schedule K, line 17, item j., whichever applies. Enter each partner's share in column (d) of Question G on Schedule K-1 or on the statement attached for Schedule K-1 (see page 15 of the instructions for line 17, item j.), whichever applies.

Signatures

General Partner

Form 1065 is not considered a return unless it is signed. One general partner must sign the return. If a receiver, trustee in bankruptcy, or assignee controls the organization's property or business, that person must sign the return.

Paid Preparer's Information

If someone prepares the return and **does not charge the partnership**, that person **should not sign** the partnership return.

Generally, anyone who is paid to prepare the partnership return must sign the return and fill in the other blanks in the **Paid Preparer's Use Only** area of the return.

The preparer required to sign the partnership's return MUST complete the required preparer information and:

- *Sign it, by hand, in the space provided for the preparer's signature. (Signature stamps or labels are not acceptable.)*

- *Give the partnership a copy of the return in addition to the copy to be filed with the IRS.*

Tax return preparers should be familiar with their responsibilities. They should see **Publication 1045**, Information and Order Blanks for Preparers of Federal Income Tax Returns, for more information.

Specific Instructions

These instructions follow the line numbers on the first page of Form 1065 and on the schedules that accompany it. Specific instructions for most of the lines are provided on the pages which follow. Those lines that do not appear in the instructions are self-explanatory.

Fill in all of the applicable lines and schedules. Enter any items specially allocated to the partners on the appropriate line of the applicable partner's Schedule K-1 and the total amount on the appropriate line of Schedule B or Schedule K (if required) and not on the numbered lines on Form 1065, page 1, or in Schedules A or D.

File only one return for each partnership. Mark "duplicate copy" on any copy you give to a partner.

If a syndicate, pool, joint venture, or similar group files Form 1065, a copy of the agreement and all amendments must be attached to the return, unless a copy has already been filed.

Form 1065

Name, Address, and Employer Identification Number

The partnership may use its legal or trade name on all tax returns and other documents filed. Use the label on the package that was mailed to the partnership and make sure it is correct. If the partnership's name, address, or employer identification number is wrong on the label, mark through it and write the correct information on the label. If the partnership does not have a package with a label, print or type the partnership's legal or trade name and address on the appropriate line.

If the post office delivers mail to the partnership's P.O. Box number rather than to the partnership's street address, use the partnership's P.O. Box number instead of the street address.

Show the correct employer identification number in Question D on page 1 of Form 1065. If the partnership does not have an employer identification number, it must apply for one on **Form SS-4**, Application for Employer Identification Number. See Publication 583 for more information on your employer identification number.

Question A

Principal Business Activity

If, as the principal business activity, the partnership (1) purchases raw materials, (2) subcontracts out for labor to make a finished product from the raw materials, and (3) retains title to the goods, the partnership is considered to be a manufacturer and must enter "Manufacturer" in Question A and one of the codes (2000 through 3970) under "Manufacturing" on page 16 of these Instructions in Question C.

Question F

Total Assets at End of Tax Year

See the instructions below for Question M before completing this question.

If you are required to complete this question, enter the total assets at the end of the partnership's tax year. If there are no assets at the end of the tax year, enter the total assets as of the beginning of the tax year.

Question I

Number of Partners

Enter the number of persons who were partners at **any time** during the tax year.

Question M

Answer Question M "Yes" if **ALL** of the following requirements are met:

1. The partnership's principal income producing activity is from one or more of the following:
   - a. Co-ownership of investment property.
   - b. Family-owned wholesale or retail store partnership (activity codes 5010–5996).
   - c. Family farm partnership.
   - d. Wholesale or retail (activity codes 5010–5996), or service (activity codes 7012–8999) partnership with **both** gross receipts (Form 1065, page 1, line 1a) and assets (Form 1065, page 1, Question F) of less than $250,000.

   See page 16 for the list of activity codes.
2. The partnership is a domestic partnership composed of ten or fewer partners (generally ten or fewer Schedules K-1 are attached to this return except that a husband and wife (and their estates) are treated as one partner for this purpose) each of whom is a natural person (other than a nonresident alien) or an estate.
3. The partnership does not have any trusts or corporations as partners.
4. The partnership is not in partnership with any other partnership.
5. Each partner's interest in the capital is the same as his or her interest in the profits.
6. All of the income, deductions, and credits, are allocated to each partner in proportion to that partner's pro-rata interest.
7. Schedules K-1 are filed with the return and furnished to the partners on or before the due date of the partnership return including extensions.

If all of the above requirements are met and Question M is answered "Yes" the partnership is not required to complete Schedules L and M, Question F on page 1 of Form 1065, and Question G on Schedule K-1.

Question N

Section 754 Election

Under section 754, a partnership may elect to adjust the basis of partnership property when property is distributed or when a partnership interest is transferred. This election must be made in a statement that is filed with the partnership's timely filed return (including any extension) for the tax year during which the distribution or transfer occurs.

If the election is made, it applies to both distributions and transfers and to all distributions and transfers made during the tax year and in all subsequent tax years unless the election is revoked (see regulation 1.754-1(c)).

The statement must include (1) the name and address of the partnership, (2) a declaration that the partnership elects under section 754 to apply the provisions of section 734(b) and section 743(b), and (3) the signature of the general partner authorized to sign the partnership return.

See section 754 and the related regulations for more information.

Note: *If there is a distribution of property that is an interest in another partnership, see section 734(b).*

Question O

Foreign Accounts

Check "Yes" if either a. OR b. below applies to you.

a. At any time during the year the partnership had an interest in or signature or other authority over a bank account, securities account, or other financial account in a foreign country.

Exception: Check "No" if either of the following applies to the partnership:

- The combined value of the accounts was $5,000 or less during the whole year.
- The accounts were with a U.S. military banking facility operated by a U.S. financial institution.

b. The partnership owns more than 50% of the stock in any corporation that would answer the question "Yes" based on item a. above.

Get Form **TD F 90-22.1**, Report of Foreign Bank and Financial Accounts, to see if the partnership is considered to have an interest in or signature or other authority over a bank account, securities account, or other financial account in a foreign country.

If you checked "Yes" for Question O, file Form TD F 90-22.1 by June 30, 1986. File it with the Department of the Treasury at the address shown on the form. Form TD F 90-22.1 is not a tax return. *Do not file it with the IRS.*

Attach a statement that gives the name(s) of the country or countries to which Question O applies if you need additional space to write in their names.

Question P

Foreign Trusts

Check "Yes" if the partnership was a grantor of, or a transferor to, a foreign trust that existed during the tax year.

A U.S. partnership that ever transferred property to a foreign trust may have to include the income from that property in the partnership's taxable income if the trust had a U.S. beneficiary during 1985. (See section 679.)

If the partnership transfers property to a foreign corporation as paid-in surplus or as a contribution to capital, or to a foreign trust or partnership, an excise tax is imposed under section 1491 (see **Form 926**, Return by a Transferor of Property to a Foreign Corporation, Foreign Estate or Trust, or Foreign Partnership). To avoid this excise tax, the partnership may choose to treat the transfer as a taxable sale or exchange as specified in section 1057.

Question Q

Form 8264

See **Registration of Tax Shelters** on page 1 for more information.

Income

(Lines 1a-11)

Do not include investment interest expense (described in section 163(d)) on loans that were incurred after December 16, 1969 in figuring the amounts to enter on lines 1a through 11. Report this amount on lines 15a and 15b. This amount is passed through to the partners on Schedules K and K-1, lines 15a(2) and (3). See the instructions on page 7 for Form 1065, lines 15a-15c, and on page 14 for Schedules K and K-1, lines 15a-15c. Property held for investment, including property subject to a net lease, includes all investments held for producing taxable income or gain. It does not include property used in the partnership's trade or business.

Do not include any income that is tax-exempt on lines 1a-11. Enter these amounts on Schedule M, column (d), and each partner's share in column (d) of Question G, if Schedule M and Question G are required.

A partnership that receives any exempt income other than interest, or holds any property or engages in any activity that produces exempt income, must attach to its return an itemized statement showing the amount of each type of exempt income, and the amount of expense allocated to each type.

Enter on the attached statement for Schedules K and K-1 (see page 15 of the instructions for line 17, item e.), tax-exempt interest income earned by the partnership during the tax year.

Also see the instructions for **Deductions** for expenses related to tax-exempt income.

If the partnership has been involved in bankruptcy, insolvency, or similar proceedings, see section 108, **Form 982,** Reduction of Tax Attributes Due to Discharge of Indebtedness, and **Publication 908,** Bankruptcy, for more information.

Line 1a

Gross Receipts or Sales

Enter gross receipts or sales from all business operations. Do not include those you are required to report on lines 4 through 10. For example, do not include gross receipts from farming on this line. Instead, show net profits (losses) from farming on line 8.

Line 2

Cost of Goods Sold and/or Operations

If the entry on line 2 of Form 1065 is for the cost of operations, complete Schedule A, even if inventories are not used. See page 8 for Schedule A instructions.

Line 3

Gross Profit

If the partnership uses the installment method for reporting gross profit under section 453A, attach a schedule showing separately the following for the current year and the 3 preceding years: (a) gross sales; (b) cost of goods sold; (c) gross profits; (d) percentage of gross profits to gross sales; (e) amounts collected; and (f) gross profit on amount collected. Enter the total reportable gross profit on line 3 and refer to the schedule attached.

Line 4

Ordinary Income (Loss) From Other Partnerships and Fiduciaries

Enter the amount shown on Schedule K-1 (Form 1065) or Schedule K-1 (Form 1041).

If there is a loss from another partnership, the amount of the loss that may be claimed is subject to the limitations of sections 465 and 704(d), as appropriate.

Example: If Partnership A is a partner in Partnership B, Partnership A enters on this line its share of ordinary income (loss) of B. This information should be shown on the Schedule K-1 that B issued to partnership A.

If A's tax year does not coincide with B's tax year, include in A's return the share of the ordinary income (loss) for the tax year of B ending with or within the year for which A's return is filed.

Partnership A considers its share of other items separately reported on the Schedule K-1 issued by B as if the items were realized by A or incurred in the same manner as incurred by B. For example, partnership A's share of B's capital gains (losses) should be reported on Schedule D (Form 1065), lines 3 and 7.

Line 5

Taxable Interest and Nonqualifying Dividends

Caution: *Be sure to give each payer of interest and dividend income the partnership's correct identification number. Otherwise, the payer may withhold 20% of the interest or dividend income. You may also be subject to penalties.*

Enter the total taxable interest and the total nonqualifying dividends. See Publication 550 for additional information.

Taxable Interest

Taxable interest is interest that is included in ordinary income from all sources except interest exempt from tax, and interest on tax-free covenant bonds.

Nonqualifying Dividends

Nonqualifying dividends are taxable dividends that are included in ordinary income and for which the individual partner is **not** entitled to an exclusion under section 116. These dividends come from the following:

- Foreign corporations, including a controlled foreign corporation.
- Exempt organizations (charitable, fraternal, etc.) and exempt farmers' cooperative organizations.
- Regulated investment companies (including Money Market Funds) and real estate investment trusts, unless the companies have told you how much of the dividends qualify for the exclusion.

Qualifying dividends are taxable dividends received from domestic corporations not listed above. They are passed through to the partners on Schedules K (if required) and K-1, line 3. See section 116 for more information.

Lines 6a-6c

Rents

Report the income and expenses of rental property. The expense deductions for the rental of a dwelling unit may be limited if the property is used by a partner for personal purposes. (See section 280A.)

Before deducting any interest expense, see the Form 1065 instructions on page 7 for lines 15a-15c and on page 14 for Schedules K and K-1, line 15c(2) to determine if the interest on rental property is investment interest for purposes of section 163(d).

Note: *Even though the income and expenses from net lease property are considered investment income and expenses for purposes of the investment interest rules (line 15 of Schedules K and K-1), all income and expenses (except the interest expense that is required to be passed through to the partners on Schedules K and K-1, lines 15a(2) and (3)) that are directly attributable to the operation of the rental property (including net lease property) should be reported on lines 6a and 6b.*

Line 8

Net Farm Profit (Loss)

Enter the partnership's net profit (loss) from **Schedule F (Form 1040)**, Farm Income and Expenses. Attach Schedule F (Form 1040) to Form 1065. Do **not** include on this line any farm profit (loss) from other partnerships. Report those amounts on line 4.

Also report the partnership's fishing income on this line.

A farming syndicate is allowed a deduction only for feed, seed, fertilizer, or other similar farm supplies in the tax year in which the items are actually used or consumed. For definitions, exceptions to the general rule, and the special rules for poultry, see section 464. For special rules for grove, orchard, and vineyard expenses, see section 278.

If a corporation is a member of a partnership engaged in farming, see section 447.

For more information, get **Publication 225,** Farmer's Tax Guide.

Line 9

Net Gain (Loss)

In addition to other ordinary gains or losses from **Form 4797,** Gains and Losses From Sales or Exchanges of Assets Used in a Trade or Business and Involuntary Conversions , that are reported on this line, a partnership that is a partner in another partnership must include on Form 4797 its share of ordinary gains (losses) from sales, exchanges, or involuntary or compulsory conversions (other than casualties or thefts) of the other partnership's assets.

Do not include any recapture of expense deduction for recovery property (section 179). See the instructions on page 15 for line 17, item f., and the instructions for Form 4797 for more information.

Line 10

Other Income (Loss)

Enter any other taxable income (loss) not included on lines 1a through 9. Include taxable income from annuities and insurance proceeds. Also include on this line the amount of credit for alcohol used as a fuel that was entered on **Form 6478**, Credit for Alcohol Used as Fuel. In the margin, next to the total amount, enter the amount of the credit and the words "Alcohol Fuel Credit." Do not include those items requiring separate computations that must be reported on Schedules K (if required) and K-1. (See the Instructions for Schedules K and K-1 on pages 9–15.)

The partnership must include as other income the recapture amount for section 280F if the business use of listed property drops to 50% or less. See section 280F(b)(3). In order to figure the recapture amount, the partnership must complete Part V of Form 4797.

Deductions

(Lines 12a-23)

Do not include any nondeductible amounts (such as expenses connected with the production of tax-exempt income) on lines 12a-23. Enter these amounts on Schedule M, column (e), if Schedule M is required.

If an expense is connected with both taxable income and nontaxable income, allocate a reasonable part of the expense to each kind of income. (See section 265.)

Do not take a deduction for any qualified expenditures to which an election under section 58(i) applies. See the instructions for Schedules K and K-1, line 17, item g., for information on where to report these amounts. See section 195 for the capitalization of start-up expenditures.

Organization and Syndication Expenses

Amounts paid or incurred to organize a partnership or promote the sale of an interest in a partnership are capital expenditures subject to section 263. They are not deductible as a current expense.

Under section 709, the partnership may choose to amortize the organization expenses over a period of 60 or more months, beginning with the month in which the partnership begins business. (See the instructions on page 8 for line 22.) On the balance sheet (Schedule L) show the unamortized balance of organization costs and all syndication expenditures (if Schedule L is required) . See the instructions for line 13 for the treatment of these amounts paid to a partner.

Syndication costs incurred in connection with the sale of limited partnership interests are chargeable to a capital account and cannot be amortized by the partnership. See Revenue Ruling 85-32, I.R.B. 1985-12, 6.

Line 12a

Salaries and Wages

Do not enter salaries and wages reported elsewhere such as on Schedule A, line 3, or on line 21a.

Line 12b

Jobs Credit

Enter the total amount of the jobs credit computed by the partnership. Subtract this from the salaries and wages shown on line 12a. See the Instructions for **Form 5884**, Jobs Credit, to figure the amount of credit to enter on line 12b.

For additional information, please get **Publication 906**, Jobs and Research Credits.

Line 13

Guaranteed Payments to Partners

Deduct payments or credits to a partner for services or for the use of capital if the payments or credits are determined without regard to partnership income. Do not do this if the payments and credits should be capitalized. Do not include distributive shares of partnership profits. Report the guaranteed payments to the appropriate partners on Schedule K-1, line 2. If Schedule K (Form 1065) is required, enter the total guaranteed payments on Schedule K, line 2.

Although payments or credits to a partner for services rendered in organizing a partnership may be guaranteed payments under section 707, they are not deductible on line 13. They are capital expenditures. However, they should be separately reported on Schedules K (if required) and K-1, line 2.

Line 14

Rent

Enter rent paid on business property. Do not deduct rent for a dwelling unit occupied by any partner for personal use.

Lines 15a-15c

Interest

Include on lines 15a and 15b interest expense on indebtedness incurred after December 16, 1969 to purchase or carry property held for investment (including net lease property). Also include interest expense not incurred in the trade or business of the partnership required to be reported on line 10 of Schedules K (if required) and K-1. Property held for investment includes all investments held for producing taxable income or gain. It does not include property used in a trade or business. See the instructions on page 14 for Schedules K and K-1, line 15b, for a description of investment income. See the instructions on page 14 for Schedules K and K-1, line 15c, to determine if rental property is investment property.

Line 15a. Enter interest on all indebtedness incurred for the operation of the partnership that is deductible by either the partnership or the partner (that is not claimed elsewhere on the return).

Payments or credits by a partnership to a partner for the use of capital should be entered on line 13. But interest paid by a partnership to a partner as a result of a transaction in which the partner acts as other than a partner, should be entered on line 15a. This interest is also reported on **Form 1099-INT**, Statement for Recipients of Interest Income. (The limitations on deductions for unpaid interest are in Regulation 1.267(b)-1(b).)

Generally, both accrual and cash basis partnerships must deduct prepaid interest payments over the period of the prepayment instead of when actually paid. (See section 461(g).)

Do not include on line 15a:

- Amounts claimed elsewhere on the return, such as on line 6b, line 7, or line 8.
- Amounts paid or accrued during the year for real property construction period interest (other than for low-income housing or for real property acquired, constructed, or carried, if the property is not, and cannot reasonably be expected to be held in a trade or business, or in an activity conducted for profit). See section 189 for more information.

For more information, see section 163(d) and **Form 4952**, Investment Interest Expense Deduction.

Line 16

Taxes

Enter taxes paid or incurred on business property for carrying on a trade or business, only if not included elsewhere on the return or on Schedules K and K-1. Federal import duties and Federal excise and stamp taxes are deductible only if paid or incurred in carrying on the trade or business of the partnership.

Taxes incurred in the production or collection of income, or for the management, conservation, or maintenance of property held for the production of income may be considered to be deductible only under section 212. These are not deductible on line 16; they are reportable separately to the partners on Schedules K (if required) and K-1, line 10, as an itemized deduction.

Do not deduct taxes assessed against local benefits that increase the value of the property assessed (such as for paving, etc.), Federal income taxes, estate, inheritance, legacy, succession, and gift taxes, or taxes reported elsewhere, such as on line 6b.

Do not deduct amounts paid or accrued during the year for real property construction period taxes (other than for low-income housing or for real property acquired , constructed, or carried, if the property is not, and cannot reasonably be expected to be held in a trade or business or in an activity conducted for profit). See section 189 for more information.

Line 17

Bad Debts

You may either deduct business bad debts when they become wholly or partially worthless, or you may make a reasonable addition to a reserve for bad debts.

If the partnership uses the reserve method, attach a schedule for 1985 that separately lists:

- Trade notes and accounts receivable outstanding at the end of the year;
- Sales on account;
- Amount added to reserve—current year's provision;
- Amount added to reserve—recoveries;
- Amount charged against reserve; and
- Reserve for bad debts at end of year.

A partnership may choose either method on its first return in which it takes a bad debt deduction. It must use that method for following years unless it receives permission to change. However, if the partnership is changing from the specific charge-off method (section 166(a)) to the reserve method (section 166(c)), see Revenue Procedure 85-8, 1985-6 I.R.B. 41.

Line 18

Repairs

Enter the cost of incidental repairs, such as labor and supplies, that do not add to the value of the property or appreciably prolong its life. New buildings, machinery, or permanent improvements that increase the value of the property are not deductible. They are chargeable to capital accounts and may be depreciated or amortized.

Do not include section 179 expense items. Report 179 expense items on Form 4562 and on Schedule K, line 9, and each partner's share on line 9 of Schedule K-1.

Line 19

Depreciation

Enter the total amount of depreciation claimed on line 19a. Complete and attach Form 4562. See Form 4562 and the related instructions and **Publication 534**, Depreciation, for more information.

Do not include any expense deduction for recovery property (section 179) on this line. This amount is not deductible by the partnership. Instead, it is passed through to the partners on line 9 of Schedules K and K-1.

Line 20

Depletion

If the partnership claims a deduction for timber depletion, complete and attach **Form T**, Forest Industries Schedules.

Do not report depletion deductions for oil and gas properties on this line. Each partner figures depletion on these properties under section 613 A(c)(7)(D). See the instructions on page 15 for Schedules K and K-1, line 17, item c., for the information on oil and gas depletion that must be supplied to the partners by the partnership.

Line 21a

Retirement Plans, etc.

Do not deduct on this line payments for partners to IRAs, Keoghs, and SEPs. These amounts are reported on Schedules K (if required) and K-1, line 10 . The partners deduct these payments on their own returns.

Enter the deductible contributions made by the partnership for its common-law employees under a qualified pension, profit-sharing, annuity, or Simplified Employee Pension plan (SEP), and under any other deferred compensation plan. Enter payments made to these plans for partners on Schedules K and K-1, line 10. See **Form 5305-SEP**, Simplified Employee Pension—Individual Retirement Accounts Contribution Agreement, for more information.

If the partnership contributes to an Individual Retirement Arrangement (IRA) for employees, include the contribution in compensation on page 1, line 12a, or Schedule A, line 3, not on line 21a. Enter contributions to an IRA for a partner on Schedules K and K-1, line 10.

Employers who maintain a pension, profit-sharing, or other funded deferred compensation plan (other than a SEP), whether or not the plan is qualified under the Internal Revenue Code and whether or not a deduction is claimed for the current year, generally are required to file one of the following forms:

- **Form 5500,** Annual Return/Report of Employee Benefit Plan, for each plan with 100 or more participants.
- **Form 5500-C,** Return/Report of Employee Benefit Plan; or **Form 5500-R,** Registration Statement of Employee Benefit Plan, for each plan with fewer than 100 participants.

There are penalties for not filing these forms on time.

Line 21b

Employee Benefit Programs

Enter the partnership's contributions to employee benefit programs for common-law employees which are not part of the retirement plans included on line 21a, such as contributions for insurance, health, and welfare programs.

Also include the partnership's contributions to a qualified group legal services plan established for the exclusive benefit of employees (including partners) or their spouses or dependents. The plan must be a separate written plan designed to provide specified benefits of personal legal services through prepayment of, or provision in advance for, legal fees in whole or in part by the employer. See section 120(e) for termination of qualified group legal services plans for tax years ending after December 31, 1985.

Line 22

Other Deductions

Enter any other authorized deductions for which there is no line on page 1 of Form 1065 .

Do not include those items requiring separate computation that must be reported on Schedules K (if required) and K-1.

Do not deduct losses incurred in transactions that were not connected with the partnership's trade or business. Report these losses separately to the partners on Schedule K-1, line 7.

Do not include qualified expenditures to which an election under section 58(i) applies. See the instructions for Schedules K and K-1, line 17, item g., for information on where to report these amounts.

Note for travel and entertainment expenses: *Generally, the partnership can deduct all ordinary and necessary travel and entertainment expenses paid or incurred in its trade or business. However, it may not deduct any expense paid or incurred for a facility (such as a yacht or hunting lodge) that is used for an activity that is usually considered entertainment, amusement, or recreation. (The partnership may be able to deduct the expense if the amount is treated as compensation and reported on Form W-2 for an employee or on Form 1099-MISC for an independent contractor.) See* ***Publication 463,*** *Travel, Entertainment, and Gift Expenses, for more details.*

Amortization

Enter the amount from Form 4562, Part II, except for section 58(i) amounts (see the instructions for Schedules K and K-1, line 17, item g.). If the partnership elects the deduction for amortization of certain expenditures for research and experiments (section 174), trademark and trade name (section 177), or mine or natural deposit development (section 616), file a statement with the return.

For additional information on amortization of the following expenditures, see the code section noted:

- Cost of certified pollution control facilities over a 5-year period—section 169.
- Certain expenditures made before January 1, 1982, for child-care facilities—section 188.
- Real property construction period interest and taxes—section 189(b) and the instructions for Form 1065, lines 15 and 16, and Schedules K and K-1, line 17, item l.
- Forestation or reforestation expenditures—section 194.
- Start-up expenditures—section 195.
- Partnership organization expenses over a period of 60 or more months—section 709.

If the partnership owns a certified historic structure and pays or incurs certain capital expenditures to rehabilitate it, special rules apply. Generally, rehabilitation expenditures as well as the amortization election had to be made before 1982. However, there are special rules (discussed in Publication 535) that permit continued use of the pre-1982 rules in some cases.

For more information on amortization, please get Publication 535.

Schedule A

Cost of Goods Sold and/or Operations

Line 2

Purchases

Show withdrawals for personal use on Schedules M and K-1 (Question G) as distributions to partners, if Schedule M and Question G are required.

Lines 8a–8d

Valuation Methods

Your inventories can be valued at:

- cost;
- cost or market value (whichever is lower); or
- any other method approved by the Commissioner of Internal Revenue that conforms with the provisions of the applicable regulations cited below.

Taxpayers using erroneous valuation methods should request permission to change to a method permitted for Federal tax purposes. For more information regarding the change, see Regulation 1.446-1(e)(3) and Revenue Procedure 84-74, 1984-2 C.B. 738.

Check the method(s) used for valuing inventories on line 8a. Under "lower of cost or market," market generally applies to normal market conditions when there is a current bid price prevailing at the date the inventory is valued. When no regular open market exists or when quotations are nominal because of inactive market conditions, use fair market prices from the most reliable sales or purchase transactions that occurred near the date the inventory is valued. For additional requirements, see regulation section 1.471-4.

Inventory may be valued below cost when the merchandise is unsaleable at normal prices or unuseable in the normal way because the goods are "subnormal" (that is, because of damage, imperfections, shop wear, etc.) within the meaning of regulation section 1.471-2(c). Such goods may be valued at a current bona fide selling price minus the direct cost of disposition (but not less than scrap value) if the taxpayer can establish such a price. See regulation section 1.471-2(c) for additional requirements.

On line 8a(iv), indicate whether you used a method of inventory valuation other than those described on line 8a(i), (ii), or (iii), and attach a statement describing the method used.

If this is the first year the "Last-in First-out" (LIFO) inventory method was either adopted or extended to inventory goods not previously valued under the LIFO method provided in section 472, attach **Form 970**, Application to Use LIFO Inventory Methods, or a statement with the information required by Form 970. Also check the LIFO box on line 8b.

If you have changed or extended your inventory method to LIFO and have had to "Write up" your opening inventory to cost in the year of election, report the effect of this writeup as income (line 10, page 1, Form 1065) proportionately over a 3-year period that begins in the tax year you made this election (section 472(d)).

Schedule B

Distributive Share Items

Line 1

Net Long-Term Capital Gain (Loss)

Enter the total of the net long-term capital gain (loss) from Schedule D (Form 1065), line 9, and any specially allocated net long-term capital gain (loss).

Line 2

Other Net Gain (Loss) Under Section 1231 and Specially Allocated Ordinary Gain (Loss)

Enter the total of the other net gain (loss) under section 1231 and any specially allocated ordinary gain (loss). However, these amounts are entered on different lines of Schedules K and K-1. Other net gains (losses), under section 1231 are entered on line 6 of Schedules K and K-1. Specially allocated ordinary gains (losses) are entered on line 7 of Schedules K and K-1. See the instructions for these lines for more information.

Line 3a

Name of Foreign Country or U.S. Possession

See the instructions on page 14 for Schedules K and K-1, line 16b.

Line 3b

Gross Income From Sources Outside the United States

See the instructions on page 14 for Schedules K and K-1, line 16c.

Schedule L

Balance Sheets

Note: *See the instructions on page 5 for Question M, page 1, Form 1065, before completing Schedule L.*

The amounts shown should agree with the partnership's books and records. Attach a statement explaining any differences.

Partnerships reporting to the Interstate Commerce Commission or to any national, state, municipal, or other public officer may send copies of their balance sheets prescribed by the Commission or state or municipal authorities, as of the beginning and end of the tax year instead of completing Schedule L. However, statements filed under this procedure must contain sufficient information to enable the IRS to reconstruct a balance sheet similar to that contained on Form 1065 without contacting the partnership during processing.

Line 17. Nonrecourse loans are those liabilities of the partnership for which none of the partners have any personal liability.

See Revenue Ruling 84-5, 1984-1 C.B. 32, for information on partnerships that purchase timeshare units in a vacation home with a nonrecourse obligation before deducting any interest that accrues on the obligation.

See Revenue Ruling 84-118, 1984–2 C.B. 120, for information on a limited partner's basis when there is a partially nonrecourse note.

Section 79 of the Tax Reform Act of 1984 approved the position taken in Revenue Ruling 83-151, 1983-2 C.B. 105, that a limited partner's basis is not increased by a share of the limited partnership's liability when the general partner has personally guaranteed a nonrecourse loan to the partnership.

Schedule M and Question G, Schedule K-1

Reconciliation of Partners' Capital Accounts

Note: *See the instructions on page 5 for Question M, page 1, Form 1065, before completing Schedule M.*

Show what caused the changes in the partners' capital accounts during the tax year.

The amounts shown should agree with the partnership's books and records and the balance sheet amounts. Attach a statement explaining any differences.

Also, the amounts on Schedule M should equal the total of the amounts reported in Question G of all the partners' Schedules K-1, if Schedule M and Question G are required.

Include in column (d) capital gains, tax-exempt interest income, other tax-exempt income, and dividends qualifying for exclusion.

Include in column (e) capital losses, interest expense not allowed as a deduction to the partnership (from line 15b, page 1, Form 1065), charitable contributions, other nondeductible amounts (such as expenses connected with the production of tax-exempt income), and other itemized deductions. Do not show amount in parentheses.

Include in column (f) withdrawals from purchases for personal use. Do not show amount in parentheses. Any withdrawal by a nonresident alien partner is subject to income tax withholding at the source. See **Payments Subject to Withholding at Source** on page 4 for more information.

See **Windfall Profit Tax** on page 4 for how to report any windfall profit tax.

Note: *If Schedule M and Question G are not required, see page 15 of the instructions for Schedules K and K-1, line 17, item j.*

Schedules K and K-1

Partners' Shares of Income, Credits, Deductions, etc.

Purpose of Schedules

Schedule K (Form 1065) is a summary schedule of all the partners' shares of the partnership's income, credits, deductions, etc. **Schedule K-1 (Form 1065)** shows each partner's separate share. One copy of each K-1 is attached to the Form 1065 filed with the Internal Revenue Service. One copy is kept with a copy of the partnership return as a part of the partnership's records. One copy, along with the **Partner's Instructions for Schedule K-1 (Form 1065),** is given to each partner.

Note: *A copy of the Partner's Instructions for Schedule K-1 (Form 1065) must be given to each partner.*

General Instructions

Although the partnership is not subject to income tax, the members are liable for tax on their shares of the partnership income, whether or not distributed, and must include their share on their tax returns.

The total amount of the distributive share items (column (b)) reported on each line on all of the partners' Schedules K-1 should equal the amount reported in column (b) on Schedule B of Form 1065 or Schedule K. Similarly, the total of the amounts reported in each column of Question G of all the partners' Schedules K-1 should equal the amounts reported in the same column on Schedule M of Form 1065 if Schedule M and Question G are required to be completed.

Schedules K and K-1 have the same line numbers. In addition, Schedule K-1 has Questions A through G, and lines 18 and 19. Pay particular attention to the instructions on page 15 for line 17. Also see the instructions on page 10 for the lettered items at the top of Schedule K-1.

Substitute Forms

You do not need IRS approval to use a substitute Schedule K-1 if it is an exact facsimile of the IRS schedule, or if it contains only those lines the taxpayer is required to use, and the lines have the same numbers and titles and are in the same order as on the comparable IRS Schedule K-1. In either case, your substitute schedule must include the OMB number and the Partner's Instructions for Schedule K-1 (Form 1065).

Other substitute Schedules K-1 require approval. You may apply for approval of a substitute form by writing to: Internal Revenue Service, Attention: D:R:R, 1111 Constitution Avenue, NW, Washington, DC 20224.

Each taxpayer's information must be on a separate sheet of paper. Therefore, all continuously printed substitutes must be separated before filing with the Service.

You may be subject to a penalty if you file Schedules K-1 with the Service not conforming to the specifications of Revenue Procedure 85-3, I.R.B. 1985-2, 14.

Note: *Separate Partner's Instructions for Schedule K-1(Form 1065) are available at most IRS offices. This version can be attached to your substitute Schedule K-1.*

How Income Is Shared Among Partners

Income (loss) is allocated to a partner only for the part of the year in which that person is a member of the partnership. The partnership will either allocate on a daily basis or divide the partnership year into segments and allocate income, loss, or special items in each segment among the persons who were partners during that segment. (See section 706(c)(2) for more information and for the termination of a partner's interest.)

Allocate shares of income, gain, loss, deduction, or credit among the partners according to the partnership agreement for sharing income or loss generally. If the partners agree, specific items may be allocated among them in a ratio different from the ratio for sharing income or loss generally. For instance, if the net income exclusive of specially allocated items is divided evenly among three partners but some special items are allocated 50% to one, 30% to another, and 20% to the third partner, report the special items on the appropriate line of the applicable partner's Schedule K-1 and the total on the appropriate line of Schedule B or Schedule K (if required) instead of on the numbered lines on page 1 of Form 1065 or Schedules A or D.

If the partnership agreement does not provide for the partner's share of income, gain, loss, deduction, or credit, or if the allocation under the agreement does not have substantial economic effect, the partner's share is determined according to the partner's interest in the partnership. (See section 704(b).)

Note: *If a partner's interest changed during the year, see section 706(d) before determining each partner's distributive share of any item of income, gain, loss, deduction, etc. Also, see the regulations under sections 861 and 882 relating to the allocation and apportionment of partnership expenses for purposes of determining taxable income from specific sources or activities.*

Specific Instructions

Schedule K Only

If there are more than ten Schedules K-1 attached to the return, enter the total distributive amount for each applicable item listed. If there are ten or fewer Schedules K–1 attached, Schedule K is not required to be completed.

Note: *If you file Schedule K, you do not have to complete certain lines on Schedule K. Completion of these lines is optional because the amounts that would appear in column* **(b)** *appear elsewhere on Form 1065 or on other IRS forms or IRS schedules attached to Form 1065. However, each partner's share must be entered on Schedule K-1. The optional lines on Schedule K are:*

- **Line 1,** *Ordinary income (loss);*
- **Line 4,** *Net short-term capital gain (loss);*
- **Line 5,** *Net long-term capital gain (loss);*
- **Line 6,** *Net gain (loss) under section 1231(other than due to casualty or theft);*
- **Line 9,** *Expense deduction for recovery property;*
- **Line 12,** *Other credits (if the other credit appears elsewhere on an IRS form or IRS schedule);*
- **Line 16b,** *Foreign country or U.S. possession; and*
- **Line 16c,** *Total gross income from outside the U.S.*

However, complete lines 4 and 5 if there are any specially allocated gains or losses.

Schedule K-1 Only

Prepare and give a Schedule K-1 to each person who was a partner in the partnership at any time during the year, on or before the day on which the partnership return is filed.

If a husband and wife each had an interest in the partnership, you must prepare a separate Schedule K-1 for each of them.

If a husband and wife held an interest together, prepare one Schedule K-1 if the two of them are considered to be one partner.

On each Schedule K-1, enter the names, addresses, and identifying numbers of the partner and partnership and the partner's distributive share of each item.

For an individual partner you must enter the partner's social security number. For all other partners you must enter their employer identification number. (However, if a partner is an individual retirement arrangement (IRA), enter the identifying number of the custodian of the IRA. Do not enter the social security number of the person for whom the IRA is maintained.)

Be sure to answer **all** the questions. Complete the Reconciliation of Partner's Capital Account on the front of Schedule K-1 (Question G) unless you meet all of the requirements listed under the instructions for Question M, on page 5.

Question A

Is Partner a General Partner?

Note: *Be sure to answer this question by checking either the "Yes" box or the "No" box, whichever applies.*

Question B

Partner's Share of Liabilities

Enter each partner's share of nonrecourse liabilities and other liabilities. **Nonrecourse liabilities** are those liabilities of the partnership for which none of the partners have any personal liability. If the partner terminated his or her interest in the partnership during the year, enter the share that existed immediately before the total disposition. In all other cases, enter it as of the end of the year.

If the partnership is engaged in two or more different types of at-risk activities, or a combination of at-risk activities and any other activity, attach a statement showing the partner's share of nonrecourse liabilities and other liabilities for **each** activity. See sections 465(c)(2) and (3) and Publication 536 to determine if the partnership is engaged in more than one at-risk activity.

If a partnership is engaged in an activity subject to the limitations of section 465(c)(1), (i.e., films or video tapes, leasing section 1245 property, farming, or oil and gas property) give each partner his or her share of the total pre-1976 loss(es) from that activity for which there existed a corresponding amount of nonrecourse liability at the end of each year in which the loss(es) occurred. See **Form 6198,** Computation of Deductible Loss From an Activity Described in Section 465(c), and related instructions for more information.

Question C

What Type of Entity Is This Partner?

State on this line whether the partner is an individual, a corporation, a fiduciary, a partnership, an exempt organization, or a nominee (custodian). If a nominee, indicate the type of entity the nominee represents:
I—Individual; C—Corporation;
F—Fiduciary; P—Partnership;
E —Exempt Organization; or
IRA—Individual Retirement Arrangement.

Question D

Partner's Profit, Loss, and Capital Sharing Percentages

Enter in Question D, column (ii) the percentages existing at the end of the year. However, if a partner's interest terminated during the year, enter in column (i) the percentages that existed immediately before the termination. When the profit or loss sharing percentage has changed during the year, show the pre-change percentage in column (i) and the end of year percentage in column (ii). If there are multiple changes in the profit and loss sharing percentage during the year, attach a statement giving the date and percentage before each change. "Ownership of capital" means the portion of the capital that the partner would receive if the partnership was liquidated at year end by the distribution of undivided interests in partnership assets and liabilities.

Question G

Reconciliation of Partner's Capital Account

See page 5 of the instructions for Question M and page 9 of the instructions for Schedule M.

(Schedules K and K-1 unless otherwise noted)

An item is specially allocated if it is allocated to a partner in a ratio that is different from the ratio for sharing income or loss generally. Report specially allocated items as follows:

- Specially allocated **short-term** capital gain (loss), enter on line 4 of the applicable partner's Schedule K-1. Enter the total amount on line 4 of Schedule K.
- Specially allocated **long-term** capital gain (loss), enter on line 5 of the applicable partner's Schedule K-1. Enter the total amount on line 1 of Schedule B of Form 1065 and line 5 of Schedule K.

If a partner has capital gains and losses from Schedule D (Form 1065) and from specially allocated items, enter the total of the partner's share of the Schedule D amount and the specially allocated amount on Schedule K-1, line 4 or 5, whichever applies. Enter the total for all the partners on Schedule K, line 4 or line 5 and Schedule B of Form 1065, line 1, whichever applies.

- Specially allocated ordinary gain (loss), enter on line 7 of the applicable partner's Schedule K-1. Enter the total amount on line 2 of Schedule B and line 7 of Schedule K.

- Other specially allocated items should be reported on the applicable line(s) of the applicable partner's Schedule K-1 and the total amount on the applicable line of Schedule K. For example, specially allocated contributions would be included on line 8 along with any other contributions.

In addition, for lines 1-10 and 17, you must show on an attached schedule how much of each line is investment related under sections 55(e)(5) and (8) and how much is investment related under section 163(d)(3).

Income (Loss)

Line 1

Ordinary Income (Loss)

You do not have to complete this line on Schedule K. The amount for this line is shown on Form 1065, page 1, line 24. However, each partner's share must be entered on Schedule K-1.

Enter the partner's share of the ordinary income (loss) reported on Form 1065, page 1, line 24. If line 24 is a loss, enter the partner's full share of the loss. If the partner holds interests in the partnership both as a general partner and as a limited partner, enter the total loss for all interests held in the partnership. Enter the loss without reference to the adjusted basis of the partner's interest in the partnership or the partner's amount at risk. Line 1 should reflect the total ordinary income (loss) from all business operations, including at-risk activities and income (loss) from other activities.

Line 2

Guaranteed Payments

Enter: (1) the guaranteed payments to partners for salaries and interest deducted by the partnership and reported on Form 1065, page 1, line 13; and (2) the guaranteed payments to partners that the partnership is required to capitalize. (See the instructions for Form 1065, line 13.)

Line 3

Dividends Qualifying for Exclusion

Enter the qualifying dividends received by the partnership from domestic corporations for which the partner is entitled to an exclusion under section 116. Generally, money market fund dividends do not qualify for the exclusion unless the company tells the partnership what part, if any, of the dividends qualify for the exclusion. (See the instructions on page 6 for Form 1065, line 5.)

Line 4

Net Short-Term Capital Gain (Loss)

If you do not have specially allocated items, you do not have to complete this line on Schedule K. The amount for this line is shown on Schedule D (Form 1065), line 4. However, each partner's share must be entered on Schedule K-1. Give the partner a statement which breaks down the partner's net short-term capital gain (loss) from investment property.

Line 5

Net Long-Term Capital Gain (Loss)

If you do not have specially allocated items, you do not have to complete this line on Schedule K. The amount for this line is shown on Schedule D (Form 1065), line 9 and Schedule B, line 1. However, each partner's share must be entered on Schedule K-1. Give the partner a statement which breaks down the partner's net long-term capital gain (loss) from investment property.

Line 6

Net Gain (Loss) Under Section 1231 (other than due to casualty or theft)

You do not have to complete this line on Schedule K. The amount for this line is entered on Schedule B of Form 1065, line 2. However, each partner's share must be entered on Schedule K-1.

Do not include specially allocated ordinary gains and losses or net gains or losses from involuntary conversions due to casualties or thefts on this line. Instead, report them on line 7.

Line 7

Other Income (Loss)

Enter any other items of income, gain, or loss not included on lines 1–6, such as:

- Gains from the disposition of farm recapture property (see Form 4797) and other items to which section 1252 applies.
- Recoveries of bad debts, prior taxes, and delinquency amounts (section 111).
- Gains and losses from wagers (section 165(d)).
- Any income, gain, or loss to the partnership under section 751(b).
- Specially allocated ordinary gain (loss). You do not have to include the total for this item on Schedule K. The total for this item is entered on Schedule B, Form 1065, line 2. Each partner's share is entered on Schedule K–1.
- Net gain (loss) from involuntary conversions due to casualty or theft. You do not have to include the total for this item on Schedule K. The amount for this line is shown on **Form 4684,** Casualties and Thefts, Section B, lines 20a, 20b, or 21. However, each partner's share must be entered on Schedule K-1.

If you choose to complete this line on Schedule K, enter the amount from Form 4684, Section B, lines 20a, 20b, or 21.

Give each partner a schedule that shows the amounts to be reported on the partner's Form 4684, Section B, line 16, columns B(i), B(ii), and C.

Note: *If there was a gain (loss) from a casualty or theft to property not used in a trade or business or for income-producing purposes, notify the partner. The partnership should not complete Form 4684 for this type of casualty or theft. Instead, the partner will complete his or her own Form 4684.*

Deductions

Note: *Do not include in the amounts shown on lines 8–10 qualified expenditures to which an election under section 58(i) applies. See the instructions for line 17, item g., for more information on where to report these amounts.*

Line 8

Charitable Contributions

Enter the total amount of charitable contributions made by the partnership during its tax year on Schedule K and each partner's distributive share on Schedule K-1. Attach an itemized list to both schedules that shows the amount subject to the 50%, 30%, and 20% limitations.

If the partnership made a qualified conservation contribution under section 170(h), also include the fair market value of the underlying property before and after the donation, and describe the conservation purpose furthered by the donation. Give a copy of this information to each partner.

If the partnership contributes property and the aggregate amount of the claimed value exceeds $500, **Form 8283,** Noncash Charitable Contributions, must be completed and attached to the Form 1065. The partnership must give a copy of its Form 8283 to every partner if the value of an item or group of similar items of contributed property exceeds $5,000 even though the amount allocated to each partner is $5,000 or less. For property that does not meet the $5,000 filing requirement, the partnership does not have to furnish the partners with its Form 8283. It should pass through the fair market value showing the partner's share of contributed property so the partners will be able to complete their Form 8283. See the **Instructions for Form 8283**, for additional information.

Line 9

Expense Deduction for Recovery Property

You do not have to complete this line on Schedule K. The amount for this line is shown on Form 4562. However, each partner's share must be entered on Schedule K-1.

A partnership may elect to expense part of the cost of recovery property that qualifies for investment credit that the partnership purchased this year for use in its trade or business. The partnership may not deduct the section 179 expense, but should report the expense separately on Schedules K and K-1. Show the total section 179 expense on Schedule K, line 9, and allocate it to each partner on Schedule K-1 (Form 1065), line 9. However, do not complete this line for any partner that is an estate or trust.

The partnership must specify the item(s) of section 179 property which it elects to treat as an expense and the portion of the cost of each item which is being treated as an expense. Do this on Form 4562 and on a schedule attached to Schedule K-1. Generally, any election made under section 179 may not be revoked except with the consent of the Secretary.

Depreciation, amortization, or investment credit may **not** be taken on any amount for which a deduction is allowed under section 179.

See section 179 and Form 4562 for more information.

See page 15 of the instructions for line 17, item f., for any recapture of section 179 amount.

Line 10

Other Deductions

Enter any other deductions not included on lines 8–9, such as:

a. Amounts paid by the partnership that would be itemized deductions on any of the partners' income tax returns if they were paid directly by a partner for the same purpose. These amounts include, but are not limited to, expenses under section 212 for the production of income other than from the partnership's trade or business. However, investment interest should not be entered on this line. See the instructions on page 14, lines 15a through 15a(3).

If there was a loss from an involuntary conversion due to casualty or theft from income-producing property, include in the total amount for this line the amount from Form 4684, Section B, line 14.

b. Any penalty on early withdrawal of savings. The Form 1099 given to the partnership by a bank or savings and loan association will show the amount of any penalty the partnership was charged because it withdrew funds from its time savings deposit before its maturity.

c. Soil and water conservation expenditures (section 175) and expenditures by farming partnerships for clearing land (section 182).

d. Expenditures for the removal of architectural and transportation barriers to the elderly and handicapped paid or incurred before January 1, 1986, which the partnership has elected to treat as a current expense (section 190). See section 190(e) for limitations.

e. Payments for a partner to an IRA, Keogh or SEP.

If there is a defined benefit plan (Keogh), attach to the Schedule K-1 for each partner a statement showing the amount of benefit accrued for the tax year.

Credits

Line 12

Other Credits

You do not have to complete this line on Schedule K if the amount for this line is shown elsewhere on Form 1065 or on other IRS forms or IRS schedules attached to Form 1065, such as item a., below. However, each partner's share must be entered on Schedule K-1.

Enter any other credits (other than investment credit which is reported on Schedule K-1, line 18 (see page 15 of instructions)) not included on line 11, such as:

a. Jobs Credit. You do not have to show the amount for this item on Schedule K. The amount is shown on **Form 5884**, Jobs Credit. However, each partner's share must be entered on Schedule K-1.

If you choose to file Schedule K, and complete this line, enter the jobs credit (from attached Form 5884) computed by the partnership. The jobs credit is computed at the partnership level. The credit may be claimed only for individuals who began work for you before January 1, 1986. It is apportioned among the partners according to their interest in the partnership at the time the wages on which the credit is computed were paid or incurred. On Schedule K-1 enter each partner's share of the credit. See Form 5884 for definitions, special rules, and limitations.

b. Credit for Alcohol Used as Fuel. You do not have to show the amount for this item on Schedule K. The amount for this line is shown on **Form 6478**, Credit for Alcohol Used as Fuel. However, each partner's share must be entered on Schedule K-1.

A credit is allowed for the sale of alcohol fuel or the use of alcohol as a fuel by the partnership in its trade or business. The credit is figured at the partnership level and then apportioned to persons who are partners in the partnership on the last day of the partnership's tax year.

Complete and attach Form 6478 to Form 1065.

The amount shown for this credit must be included in the partnership's income. Report this amount on page 1, line 10 of Form 1065. See the instructions on page 7 for line 10, Form 1065.

Note: *The partnership may elect not to have the credit for alcohol used as fuel apply. See section 40 for more information.*

c. Nonconventional source fuel credit. The credit is figured at the partnership level and then is apportioned to persons who are partners in the partnership on the last day of the partnership's tax year. Attach a separate schedule to the return to show the computation of the credit. See section 29 for more information.

d. Unused credits from cooperatives. If the partnership is a member of a cooperative that passes an unused regular investment credit, or unused energy investment credit through to its members, enter the partnership's share of the unused credits on line 12 and identify the types of unused credits. If the partnership receives an unused jobs credit from a cooperative, it combines the credit with any other jobs credit it figures on Form 5884 and passes the combined credit through to the partners.

The unused credits are apportioned to persons who are partners in the partnership on the last day of the partnership's tax year. Attach a statement to Schedule K-1 to show each partner's share of each unused credit.

e. Orphan drug credit and credit for increasing research activities. Complete and attach **Form 6765**, Credit for Increasing Research Activities.

Self-Employment

Note: *If the partnership is an options dealer or a commodities dealer, see section 1402(i) before completing lines 13a, b, and c, to determine the amount of any adjustment that may have to be made to the amounts shown on the Worksheet for Figuring Net Earnings (Loss) From Self-Employment.*

Line 13a

Net Earnings (Loss) From Self-Employment

Schedule K. Enter on line 13a the amount from line 13 of the worksheet on page 13.

Schedule K-1. Do not complete this line for any partner that is an estate, trust, corporation, exempt organization, or Individual Retirement Arrangement (IRA).

Enter on line 13a of Schedule K-1 each individual general partner's share of the amount shown on line 11c of the worksheet. To figure each individual general partner's share of the amount on line 11c, multiply the amount on line 11c by the percentage you get when you divide each individual general partner's share of the partnership's ordinary income (loss) (line 1 of Schedule K-1) by the total partnership ordinary income (loss) (line 1 of Schedule K-1) for all the individual general partners. Enter the amount shown on line 11b of the worksheet on the applicable individual general partner's Schedule K-1, line 13a. Add it to the partner's share of the amount on line 11c of the worksheet.

If a partner is both a general and a limited partner, add that partner's share of the amount on lines 11b and 11c to that partner's share of the amount on line 12 and enter the total on line 13a of that partner's Schedule K-1.

Limited partners.—A limited partner's share of partnership ordinary income (loss) shown on line 1 of Schedules K and K-1 is not self-employment income. Limited partners may treat as self-employment income only guaranteed payments for services they actually rendered to, or on behalf of, the partnership to the extent that those payments are established as payment for those services (line 12 of the worksheet). Show only these amounts on line 13a of Schedule K-1 for a limited partner.

General partners.—General partners' net earnings (loss) from self-employment do not include:

- Dividends on any share(s) of stock, interest on any bonds, debentures, notes, certificates, or other evidences of indebtedness, issued with interest coupons or in registered form by a corporation, government, or political subdivision, unless the dividends or interest are received in the course of a trade or business as a dealer in stocks or securities.
- Rentals from real estate, except rentals received in the course of a trade or business as a real estate dealer.

However, receipts for the use or occupancy of rooms or other space where certain types of services are also rendered to the occupant (such as rooms in hotels, boarding houses, apartment houses furnishing hotel services, tourist camps, tourist homes, or space in parking lots, trailer parks, warehouses, or storage garages) are not rentals from real estate for this purpose. General partners should include these amounts in determining net earnings (loss) from self-employment.

- Royalty income, except royalty income received in the course of a trade or business.

Worksheet Instructions

Lines 1b, 5b, and 10b.—Allocate the amounts on these lines in the same way Form 1065, page 1, line 24 is allocated to these particular partners.

Line 2.—Include in the amount on line 2 any guaranteed payments to partners reported on Schedules K and K-1, line 2. Also include other ordinary income and expense items reported on Schedules K and K-1 that are self-employment income or expenses under section 1402.

Lines 3 and 4.—For purposes of these two lines only, do not enter these amounts in parentheses.

Line 7.—Do not include on this line interest income earned on notes or accounts receivable that is included on Form 1065, page 1, line 5. Interest income earned on notes or accounts receivable is subject to self-employment tax.

Worksheet for Figuring Net Earnings (Loss) From Self-Employment

1	**a** Ordinary income (loss) (Form 1065, page 1, line 24)	1a	
	b Part allocated to partners who are estates, trusts, corporations, exempt organizations, IRAs, or limited partners	1b	
	c Subtract line 1b from line 1a. (If line 1a is a loss, reduce line 1a by the amount on line 1b.)	1c	
2	Guaranteed payments to partners included on Schedules K-1, line 2	2	
3	Net loss from rental of real estate	3	
4	Net loss from Form 4797 (Form 1065, page 1, line 9)	4	
5	**a** Total (add lines 2, 3, and 4)	5a	
	b Part allocated to partners who are estates, trusts, corporations, exempt organizations, IRAs, or limited partners	5b	
	c Subtract line 5b from line 5a	5c	
6	Add lines 1c and 5c. (If line 1c is a loss, reduce line 1c by the amount on line 5c.)	6	
7	Taxable interest and nonqualifying dividends (Form 1065, page 1, line 5) excluding interest income earned on notes and accounts receivable	7	
8	Net income from rental of real estate	8	
9	Net gain from Form 4797 (Form 1065, page 1, line 9)	9	
10	**a** Total (add lines 7, 8, and 9)	10a	
	b Part allocated to partners who are estates, trusts, corporations, exempt organizations, IRAs, or limited partners	10b	
	c Subtract line 10b from line 10a	10c	
11	**a** Subtract line 10c from line 6. (If line 6 is a loss, increase the loss on line 6 by the amount on line 10c.)	11a	
	b Guaranteed payments to individual general partners included on line 2 above. Include on line 13a of the applicable individual general partner's Schedule K-1	11b	
	c Subtract line 11b from line 11a. (If line 11a is a loss, increase the loss on line 11a by the amount on line 11b.) Include each individual general partner's share on line 13a of Schedule K-1. Add this amount to any amount from line 11b of this worksheet	11c	
12	Guaranteed payments to individual limited partners included on line 2 above. Enter here and on the applicable partner's Schedule K-1, line 13a	12	
13	Net earnings (loss) from self-employment. Add lines 11b, 11c, and 12. (If line 11c is a loss, reduce the loss on line 11c by the total of the amounts on lines 11b and 12.) Enter here and on Schedule K (if required), line 13a	13	

Line 13b

Gross Farming or Fishing Income

Enter the gross farming or fishing income that is used by an individual partner to figure self-employment income under the optional method.

Line 13c

Gross Non-farm Income

Enter the gross non-farm income that is used by an individual partner to figure self-employment income under the optional method.

Tax Preference Items

Lines 14a through 14f

Lines 14a–14f must be completed whether or not a partner is subject to the alternative minimum tax or the minimum tax (corporations only).

Enter items of income and deductions that are tax preference items. See **Form 6251**, Alternative Minimum Tax Computation, **Form 4626**, Computation of Minimum Tax—Corporations, and **Publication 909**, Alternative Minimum Tax, to determine the amounts to enter and for other information.

Do not include as a tax preference item any qualified expenditures to which an election under section 58(i) may apply.

Line 14c. Depletion.— Do not include any depletion on oil and gas wells. The partners must compute their depletion deduction separately under section 613A.

In the case of mines, wells, and other natural deposits, other than oil and gas wells, enter the amount by which the deduction for depletion under section 611 (including percentage depletion for geothermal deposits), is more than the adjusted basis of such property at the end of the tax year. Figure the adjusted basis without regard to the depletion deduction and figure the excess separately for each property.

Lines 14d(1) and 14d(2).— Generally, the amounts to be entered on these lines are not the total partnership income or deductions for oil, gas, and geothermal properties. Generally, they are only the income and deductions included on page 1, Form 1065, that are used to figure the amount on line 24, page 1, Form 1065.

If there are any items of income or deductions for oil, gas, and geothermal properties included in the amounts that are required to be passed through separately to the partners on Schedule K-1, give each partner a schedule for the line on which the income or deduction is included which shows the amount of income or deductions included in the total amount for that line. Do not include any of these direct pass-thru amounts on lines 14d(1) or 14d(2). The partner is told in the Partner's Instructions for Schedule K-1 (Form 1065) to adjust the amounts on lines 14d(1) and 14d(2) for any other income or deductions from oil, gas, or geothermal properties included in lines 2 through 10 and 17 to determine the total income or deductions from oil, gas, and geothermal properties for the partnerships.

Figure the amount for lines 14d(1) and (2) separately for oil and gas properties which are not geothermal deposits and for all properties which are geothermal deposits.

Give the partners a schedule that shows the separate amounts that are included in the computation of the amounts on lines 14d(1) and (2).

Line 14d(1). Gross Income From Oil, Gas, and Geothermal Properties.—Enter the aggregate amount of gross income (within the meaning of section 613(a)) from all oil, gas, and geothermal properties received or accrued during the tax year that was included on page 1, Form 1065.

Line 14d(2). Deductions Allocable to Oil, Gas, and Geothermal Properties.—Enter the amount of any deductions allocable to oil, gas, and geothermal properties reduced by the excess intangible drilling costs that were included on page 1, Form 1065 on properties for which the partnership made the election to expense intangible drilling costs in tax years beginning before January 1, 1983. Do not include non-productive well costs or the amounts shown on lines 15a, 15b, 19a, and 19b, page 1, Form 1065. Instead, use the amount on lines 15c and 19c, page 1, Form 1065.

Figure excess intangible drilling costs as follows: From the allowable intangible drilling and development costs (except for costs in drilling a nonproductive well), subtract the amount that would have been allowable if the partnership had capitalized these costs and either amortized them over the 120 months that started when production began, or treated them according to any election made under section 57(d)(2). See section 57(a)(11) for more information.

Lines 14e(1) and 14e(2). Qualified Investment Income and Expenses.— Enter the partnership's qualified investment income and expenses from all sources that were included on page 1, Form 1065. However, do not include as qualified investment expenses the amounts shown on lines 15a, 15b, 19a, and 19b, page 1, Form 1065. Instead, use the amounts on lines 15c and 19c, page 1, Form 1065. See Form 6251 to determine the amounts to enter.

If there are any items of qualified investment income or expenses included in the amounts that are required to be passed through separately to the partners on Schedule K-1, give each partner a schedule for the line on which the qualified investment income or expense is included which shows the amount of qualified investment income or expense included in the total amount for that line. Do not include any of these direct pass-thru amounts on line 14e(1) or 14e(2). The partner is told in the Partner's Instructions for Schedule K-1 (Form 1065) to adjust the amounts on lines 14e(1) and 14e(2) for any other qualified investment income or expense included in lines 2 through 10 and 17 to determine the total qualified investment income or expenses for the partnership.

Investment income is gross income from interest, nonqualifying dividends, rents, and royalties, and any amount treated as ordinary income under sections 1245, 1250, and 1254 reported on page 1, Form 1065. Do not include income from a trade or business.

Investment expenses are those expenses allowable against the production of investment income and provided they are allowed in figuring a partner's adjusted gross income and not includible as a tax preference item.

Note: *For limited partners, qualified investment income and expenses include income, expenses, and losses from the partnership's trade or business.*

Line 14f. Other.—Attach a schedule which shows each partner's share of: amortization of certified pollution control facilities; reserves for losses on bad debts of financial institutions; and any other items not shown on lines 14a through 14e(2) that are tax preference items or that the partner needs to complete Form 6251 or Form 4626 (for corporate partners). See Forms 6251 and 4626 and their instructions to determine the amount to enter.

Investment Interest

Lines 15a through 15c(2)

Lines 15a–15c(2) must be completed whether or not a partner is subject to the investment interest rules.

Enter the interest on investment indebtedness and items of investment income and expenses included on page 1, Form 1065.

The interest expense reported on line 15a(1) may also be included on page 1, Form 1065, line 15c. However, the interest expense reported on lines 15a(2) and 15a(3) must not appear as a deduction on line 15c or elsewhere on the return. The income and expenses included on lines 15b(1), 15b(2), 15c(1), and 15c(2) are reported on Form 1065, page 1. For example, interest income included on line 15b(1) is reported on Form 1065, line 5.

For more information, see **Form 4952,** Investment Interest Expense Deduction.

Lines 15a(1) through 15a(3). Investment Interest Expense.—See Form 4952 and its instructions to determine the amounts to enter.

Tell the individual partners the amount, if any, that should be reported on Schedule E (Form 1040).

Note: *The partnership must have an amount on line 15b of page 1, Form 1065, in order to have an amount shown on either line 15a(2) or 15a(3).*

Lines 15b(1) and 15b(2). Investment Income and Expenses.—The amount to be entered on these lines are not the total partnership investment income or expenses. They are only the investment income or expenses included on page 1, Form 1065, that are used to figure the amount on line 24, page 1, Form 1065.

If there are any items of investment income or expenses included in the amounts that are required to be passed through separately to the partners on Schedule K-1, give each partner a schedule for the line on which the investment income or expense is included which shows the amount of investment income or expense included in the total amount for that line. Do not include any of these direct pass-thru amounts on lines 15b(1) and 15b(2). The partner is told in the Partner's Instructions for Schedule K-1 (Form 1065), to adjust the amounts on lines 15b(1) and 15b(2) for any other investment income or expenses included in lines 2 through 10 and 17 to determine the total investment income or expenses for this partnership.

Enter the partnership's investment income and expenses from all sources that were included on page 1, Form 1065. However, do not include as investment expenses the amounts shown on lines 15a, 15b, 19a, and 19b, page 1, Form 1065. Instead, use the amounts on lines 15c and 19c, page 1, Form 1065. See Form 4952 and its instructions to determine the amount to enter.

Lines 15c(1) and (2). Income and Expenses From Net Lease Property.— Enter the partnership's income and expenses from net lease property if the expenses for each property subject to a net lease, allowable under sections 162, 163 (without any reduction for the limitations of section 163(d)), 164(a)(1) and (2), and 212, are more than the income produced by this property. Do not include the income or expenses for any property if the income exceeds the expenses.

For a definition of net lease property, see Form 4952.

Foreign Taxes

Lines 16a through 16g

Lines 16c–16g must be completed whether or not a partner is eligible for the foreign tax credit.

In addition to the instructions below, see the following for more information:

- **Form 1116,** Computation of Foreign Tax Credit—Individual, Fiduciary, or Nonresident Alien Individual, and the related instructions.
- **Form 1118,** Computation of Foreign Tax Credit—Corporations, and the related instructions.
- **Publication 514,** Foreign Tax Credit for U.S. Citizens and Resident Aliens.

Line 16a. Type of Income.—Enter the type of income as follows:

- nonbusiness (section 904(d)) interest income;
- dividends from a IC-DISC or former DISC;
- all other income from sources outside the United States (including income from sources in U.S. possessions); and
- distributions from a Foreign Sales Corporation.

If, for the country or U.S. possession shown on line 16b, the partnership had **more than one** type of income, enter **"More than one type"** and attach a schedule for each type of income for lines 16b through 16g.

Line 16b. Name of Foreign Country or U.S. Possession.—You do not have to complete this line on Schedule K. The information for this line is entered on Schedule B of Form 1065, line 3a. However, the name must be entered on Schedule K-1.

Enter the name of the foreign country or U.S. possession. If, for the type of income shown on line 16a, the partnership had income from, or paid taxes to, **more than one** foreign country or U.S. possession, enter **"More than one foreign country or U.S. possession"** and attach a schedule for each country for lines 16a and 16c through 16g.

Line 16c. Gross Income From Sources Outside the United States.—You do not have to complete this line on Schedule K . The amount for this line is entered on Schedule B of Form 1065, line 3b. However, each partner's share must be entered on Schedule K-1

Enter in U.S. dollars the total gross income from sources outside the United States. Attach a schedule that shows each type of income as follows:

- dividends;
- gross rents and royalties;
- foreign source capital gain net income;
- wages, salaries, and other employee compensation;
- business or profession;
- gross income from trusts and estates; and
- other (including interest) (specify).

Line 16d. Applicable Deductions and Losses.—Enter in U.S. dollars the total applicable deductions and losses. Attach a schedule that shows each type of deduction or loss as follows:

- expenses directly allocable to business or profession;
- depreciation, depletion, repairs, and other expenses directly allocable to rent and royalty income;
- other expenses directly allocable to specific income items (specify);
- pro rata share of all other deductions not directly allocable to specific items of income; and
- losses from foreign sources.

Line 16e. Foreign Taxes Paid or Accrued.—Enter in U.S. dollars the total foreign taxes (described in section 901) that were paid or accrued by the partnership to foreign countries or U.S. possessions. Attach a schedule that shows the date(s) the taxes were paid or accrued, and the amount in both foreign currency and in U.S. dollars, as follows:

- taxes withheld at source on dividends;
- taxes withheld at source on rents and royalties; and
- other foreign taxes paid or accrued.

Line 16f. Reduction in Taxes Available for Credit.—Enter in U.S. dollars, the total reduction in taxes available for credit. Attach a schedule that shows separately the:

- reduction for foreign mineral income (section 901(e));
- reduction for failure to furnish returns required under section 6038;
- reduction for taxes attributable to boycott operations (section 908);
- reduction for foreign oil and gas extraction income (section 907(a)); and
- reduction for any other items (specify).

Line 16g. Other.—Enter in U.S. dollars any items not covered on lines 16c, 16d, 16e, and 16f, such as taxable income (loss) of foreign branches from sources outside the United States for corporate partners (Form 1118, Schedule A, column 14).

Other

Line 17

Do not put an amount on this line. Instead, enter on an attached statement the description and amount of each partner's share of each of the items listed in a. through m. Show income or gains as a positive number. Show losses with the number in parentheses.

a. Taxes paid on undistributed capital gains by a regulated investment company. As a shareholder of a regulated investment company, the partnership will receive notice on **Form 2439,** Notice to Shareholder of Undistributed Long-Term Capital Gains, that the company paid tax on undistributed capital gains.

b. The number of gallons of the fuels used during the tax year and the appropriate tax rate for each type of use identified on **Form 4136,** Computation of Credit for Federal Tax on Gasoline and Special Fuels, and in the related instructions. Each partner's share of the credit for qualified diesel-powered highway vehicles as shown on Form 4136. See section 6427(g) for type of vehicles which qualify for the credit in 1985.

c. The partner's share of gross income from the property, share of production for the tax year, etc., needed to figure the partner's depletion deduction for oil and gas wells. The partnership should also allocate to each partner a proportionate share of the adjusted basis of each partnership oil or gas property. The allocation of the basis of each property is made as specified in section 613A(c)(7)(D).

The partnership cannot deduct depletion on oil and gas wells. The partner must determine the allowable amount to report on his or her return. See Publication 535 for more information.

d. For any partner that is a corporation, any income allocable to the partner(s) that is "timber preference income" under section 57(e).

e. Tax-exempt interest income.

f. Recapture of expense deduction for recovery property (section 179). Enter the amount that was originally passed through to the partners and the partnership's tax year in which the amount was passed through. Tell the partner if the recapture amount was caused by the disposition of the recovery property. Do not include this amount in line 9, page 1, Form 1065.

g. Total qualified expenditures (and the applicable period) paid or incurred during the tax year to which an election under section 58(i) may be applicable. Enter this amount for all partners whether or not a partner is permitted to make an election under section 58(i). Do not deduct this amount on page 1, Form 1065. Do not report it as a tax preference item on line 14. Do not include amounts paid or incurred in prior tax years.

h. Intangible drilling costs (IDCs) under section 263. See Publication 535 to determine the amount to pass through to each partner. Individual partners (including estates and trusts) may choose to deduct IDCs under section 263 or under section 58(i), but not both. If there are any limited partners, see section 58(i)(4).

i. Deduction and recapture of certain mining exploration expenditures paid or incurred under section 617. Individual partners (including estates and trusts) may choose to deduct these expenditures under section 617 or under section 58(i), but not both.

j. Any items the partners need to determine the basis of their interest for purposes of section 704(d) because Schedule M and Question G on Schedule K-1 are not completed; or any items (other than those shown on Question B) the partners need to figure their amount at risk.

k. Any information or statements the partners need to comply with section 6111, and section 6661.

l. Real property construction period interest and taxes for other than low-income housing or any real property acquired, constructed, or carried, if the property is not and cannot reasonably be expected to be held in a trade or business or in an activity conducted for profit. See section 189 for more information.

m. Any other information a partner may need to file his or her return that is not shown anywhere else on Schedule K-1. For example, if there is a pension plan that is a partner, special information may be needed by that partner to properly file its tax return.

Property Eligible for Investment Credit

Schedule K

Complete and attach **Form 3468,** Computation of Investment Credit, to Form 1065. See Form 3468 and the related instructions for information on whether property is eligible for the credit, the amount that is eligible for the credit, any adjustment of basis or percentage eligible for the credit that may be required, and other information. Also see **Publication 572,** Investment Credit.

Do not include that part of the cost of property the partnership has elected to expense under section 179.

Complete and attach Schedule B of Form 3468 to Form 1065, showing the partnership's total qualified investment in business energy property that is eligible for the credit. See Schedule B of Form 3468 and the related instructions for more information.

Lines 18a–18i (Schedule K-1 only)

Lines 18a–18i must be completed whether or not a partner is eligible for the investment credit.

Enter each partner's share of the partnership's investment in qualifying property that is eligible for the credit. Partners may claim a tax credit based on their pro rata share of this investment by filing Form 3468.

Attach to each Schedule K-1 a separate schedule that shows each partner's share of the partnership's investment in qualified energy property that is eligible for the credit, and where the partner should report it on his or her Schedule B of Form 3468.

The partnership must reduce the basis of regular and energy investment credit property by half of any investment credit allowable for the property. The basis reduction is not required for regular investment credit property if the partnership elects to take a reduced credit. If the election is made, each partner must be notified by completing the appropriate line or lines of line 18. See section 48(q) and the Instructions for Form 3468 for details.

Line 18i. Other.— Attach to each Schedule K-1 a separate schedule that shows each partner's share of nonrecovery property, new commuter highway vehicle property, used commuter highway vehicle property, and qualified rehabilitation expenditures eligible for the credit. Give each partner a schedule showing: (1) the amount to be reported; and (2) the line numbers on Form 3468 on which the amount should be reported.

The schedule for nonrecovery property should use the format of the worksheet in the Instructions for Form 3468 for nonrecovery property.

Property Subject to Recapture of Investment Credit

Lines 19a–19e (Schedule K-1 only)

Lines 19a–19e must be completed whether or not a partner is subject to the recapture of investment credit.

Complete line 19 when regular or energy investment credit property is disposed of, ceases to qualify or there is a decrease in the percentage of business use before the end of the "life-years category" or "recovery period" assigned. For more information, see **Form 4255,** Recapture of Investment Credit, and Publication 572.

Codes for Principal Business Activity and Principal Product or Service

These industry titles and definitions, for use on Form 1065 partnership returns, are based, in general, on the Standard Industrial Classification System authorized by Regulatory and Statistical Analysis Division, Office of Information and Regulatory Affairs, Office of Management and Budget, to classify enterprises and establishments by type of activity in which engaged.

Using the list below, enter on page 1, Question C, the code for the specific industry group for which the largest percentage of "total assets (Schedule L, line 13, column D)" is used.

In Question A, state the principal business activity (see the instructions on page 5). In Question B, state the principal product or service which accounts for the largest percentage of total assets. For example, if the principal business activity is "Retail food store," the principal product or service may be "dairy products."

Agriculture, Forestry, and Fishing

Farms:

Code	
0120	Field crop.
0160	Vegetable and melon farms.
0170	Fruit and nut tree farms.
0180	Horticultural specialty.
0211	Beef cattle feedlots.
0212	Beef cattle, except feedlots.
0215	Hogs, sheep, and goats.
0240	Dairy farms.
0250	Poultry and eggs.
0260	General livestock (except animal specialty).
0270	Animal specialty.

Agricultural services and forestry:

Code	
0740	Veterinary services.
0753	Livestock breeding.
0754	Animal services, except livestock breeding and veterinary.
0780	Landscape and horticultural services.
0790	Other agricultural services.
0800	Forestry.

Fishing, hunting, and trapping:

Code	
0930	Commercial fishing, hatcheries, and preserves.
0970	Hunting, trapping, and game propagation.

Mining

Code	
1000	Metal mining.
1150	Coal mining.
1300	Oil and gas extraction.
1400	Nonmetallic minerals except fuel.

Construction

General building contractors and operative builders:

Code	
1510	General building contractors.
1531	Operative builders.

Heavy construction contractors:

Code	
1611	Highway and street construction.
1620	Heavy construction, except highway.

Special trade contractors:

Code	
1711	Plumbing, heating, and air conditioning.
1721	Painting, paperhanging, and decorating.
1731	Electrical work.
1740	Masonry, stonework, and plastering.
1750	Carpentering and flooring.
1761	Roofing and sheet metal work.
1771	Concrete work.
1781	Water well drilling.
1790	Miscellaneous special trade contractors.

Manufacturing

Code	
2000	Food and kindred products.
2200	Textile mill products.
2300	Apparel and other textile products.
2400	Lumber and wood products, except furniture.
2500	Furniture and fixtures.
2700	Printing, publishing, and allied industries.
2800	Chemicals and allied products.
3100	Leather and leather products.
3200	Stone, clay, and glass products.
3300	Primary metal industries.
3400	Fabricated metal products.
3500	Machinery, except electrical.
3600	Electrical and electronic equipment.
3700	Transportation equipment.
3970	Other manufacturing industries.

Transportation, Communication, Electric, Gas, and Sanitary Services

Local and interurban passenger transit:

Code	
4121	Taxicabs.
4189	Other passenger transportation.

Trucking and warehousing:

Code	
4210	Trucking, local and long distance.
4289	Public warehousing and trucking terminals.

Other transportation including transportation services:

Code	
4400	Water transportation.
4540	Transportation by air.
4722	Passenger transportation arrangement.
4723	Freight transportation arrangement.
4799	Other transportation services.
4800	**Communication.**
4900	**Electric and gas services.**
4950	**Sanitary services.**

Wholesale Trade

Durable:

Code	
5010	Motor vehicles and automotive equipment.
5030	Lumber and construction materials.
5060	Electrical goods.
5070	Hardware, plumbing, and heating equipment.
5083	Farm machinery and equipment.
5089	Other machinery, equipment, and supplies.
5095	Other durable goods.

Nondurable:

Code	
5129	Drugs, chemicals, and allied products.
5130	Apparel, piece goods, and notions.
5140	Groceries and related products.
5150	Farm-product raw materials.
5180	Alcoholic beverages.
5195	Other nondurable goods.

Retail Trade

Building materials, hardware, garden supply, and mobile home dealers:

Code	
5211	Lumber and other building materials dealers.
5231	Paint, glass, and wallpaper stores.
5251	Hardware stores.
5261	Retail nurseries and garden stores.
5271	Mobile home dealers.

General merchandise:

Code	
5331	Variety stores.
5398	Other general merchandise stores.

Food stores:

Code	
5411	Grocery stores.
5420	Meat and fish markets freezer provisioners.
5431	Fruit stores and vegetable markets.
5441	Candy, nut, and confectionery stores.
5451	Dairy products stores.
5460	Retail bakeries.
5490	Other food stores.

Automotive dealers and service stations:

Code	
5511	New car dealers (franchised).
5521	Used car dealers.
5531	Auto and home supply stores.
5541	Gasoline service stations.
5551	Boat dealers.
5561	Recreational vehicle dealers.
5571	Motorcycle dealers.
5599	Aircraft, and other automotive dealers.

Apparel and accessory stores:

Code	
5611	Men's and boys' clothing and furnishings.
5621	Women's ready-to-wear stores.
5631	Women's accessory and specialty stores.
5641	Children's and infants' wear stores.
5651	Family clothing stores.
5661	Shoe stores.
5681	Furriers and fur shops.
5699	Other apparel and accessory stores.

Furniture, home furnishings, and equipment stores:

Code	
5712	Furniture stores.
5713	Floor covering stores.
5714	Drapery, curtain, and upholstery stores.
5719	Home furnishings, except appliances.
5722	Household appliance stores.
5732	Radio and television stores.
5733	Music stores.

Eating and drinking places:

Code	
5812	Eating places.
5813	Drinking places.

Miscellaneous retail stores:

Code	
5912	Drug stores and proprietary stores.
5921	Liquor stores.
5931	Used merchandise stores.
5941	Sporting goods stores and bicycle shops.
5942	Book stores.
5943	Stationery stores.
5944	Jewelry stores.
5945	Hobby, toy, and game shops.
5946	Camera and photographic supply stores.
5947	Gift, novelty, and souvenir shops.
5948	Luggage and leather goods stores.
5949	Sewing, needlework, and piece goods stores.
5961	Mail order houses.
5962	Merchandising machine operators.
5963	Direct selling organizations.
5982	Fuel and ice dealers (except fuel oil and bottled gas dealers).
5983	Fuel oil dealers.
5984	Liquefied petroleum gas (bottled gas) dealers.
5992	Florists.
5993	Cigar stores and stands.
5994	News dealers and newsstands.
5996	Other miscellaneous retail stores.

Finance, Insurance, and Real Estate

Code	
6000	**Banking.**
6100	**Credit agencies other than banks.**

Security and commodity brokers, dealers, exchanges, and services:

Code	
6212	Security underwriting syndicates.
6218	Security brokers and dealers, except underwriting syndicates.
6299	Commodity contracts brokers and dealers; security and commodity exchanges; and allied services.

Real estate:

Code	
6411	Insurance agents, brokers, and services.
6511	Real estate operators (except developers) and lessors of buildings.
6520	Lessors of real property other than buildings.
6531	Real estate agents, brokers, and managers.
6541	Title abstract offices.
6552	Subdividers and developers, except cemeteries.
6553	Cemetery subdividers and developers.
6611	Combined real estate, insurance, loans, law offices.

Holding and other investment companies:

Code	
6746	Investment clubs.
6747	Common trust funds.
6748	Other holding and investment companies.

Services

Hotels and other lodging places:

Code	
7012	Hotels.
7013	Motels, motor hotels, and tourist courts.
7021	Rooming and boarding houses.
7032	Sporting and recreational camps.
7033	Trailer parks and camp sites.
7041	Organizational hotels and lodging houses on a membership basis.

Personal services:

Code	
7215	Coin-operated laundries and dry cleaning.
7219	Other laundry, cleaning, and garment services.
7221	Photographic studios and portrait studios.
7231	Beauty shops.
7241	Barber shops.
7251	Shoe repair and hat cleaning shops.
7261	Funeral services and crematories.
7299	Miscellaneous personal services.

Business services:

Code	
7310	Advertising.
7340	Services to buildings.
7370	Computer and data processing services.
7392	Management, consulting, and public relations services.
7394	Equipment rental and leasing.
7398	Other business services.

Automotive repair and services:

Code	
7510	Automotive rentals and leasing, without drivers.
7520	Automobile parking.
7531	Automobile top and body repair shops.
7538	General automobile repair shops.
7539	Other automotive repair shops.
7540	Automotive services, except repair.

Miscellaneous repair services:

Code	
7622	Radio and TV repair shops.
7628	Electrical repair shops, except radio and TV.
7641	Reupholstery and furniture repair.
7680	Other miscellaneous repair shops.

Motion picture:

Code	
7812	Motion picture and video tape production, distribution, and services.
7830	Motion picture theaters.

Amusement and recreation services:

Code	
7920	Producers, orchestras, and entertainers.
7932	Billiard and pool establishments.
7933	Bowling alleys.
7941	Professional sports clubs and promoters.
7948	Racing, including track operation.
7980	Other amusement and recreation services.

Medical and health services:

Code	
8011	Offices of physicians.
8021	Offices of dentists.
8031	Offices of osteopathic physicians.
8041	Offices of chiropractors.
8042	Offices of optometrists.
8048	Registered and practical nurses.
8050	Nursing and personal care facilities.
8060	Hospitals.
8071	Medical laboratories.
8072	Dental laboratories.
8098	Other medical and health services.

Other services:

Code	
8111	Legal services.
8200	Educational services.
8911	Engineering and architectural services.
8932	Certified public accountants.
8933	Other accounting, auditing, and bookkeeping services.
8999	Other services, not elsewhere classified.

SCHEDULE D
(Form 1065)

Department of the Treasury
Internal Revenue Service

Capital Gains and Losses

▶ **For Paperwork Reduction Act Notice, see instructions below.**

▶ **Attach to Form 1065.**

OMB No. 1545-0099

1985

Name of partnership

Employer identification number

Part I Short-Term Capital Gains and Losses—Assets held six months or less (one year or less if acquired before 6/23/84)

(a) Description of property (Example, 100 shares 7% preferred of "Z" Co.)	**(b)** Date acquired (mo., day, yr.)	**(c)** Date sold (mo., day, yr.)	**(d)** Gross sales price	**(e)** Cost or other basis (see instructions)	**(f)** Gain (loss) ((d) minus (e))
1					

2 Short-term capital gain from installment sales from Form 6252, line 22 or 30 . . . .

3 Partnership's share of net short-term capital gain (loss), including specially allocated short-term capital gains (losses), from other partnerships and from fiduciaries . . . .

4 Net short-term capital gain (loss) from lines 1, 2, and 3. Enter each partner's share on Schedule K-1 (Form 1065), line 4 . . . .

Part II Long-Term Capital Gains and Losses—Assets held more than six months (more than one year if acquired before 6/23/84)

5					

6 Long-term capital gain from installment sales from Form 6252, line 22 or 30 . . . .

7 Partnership's share of net long-term capital gain (loss), including specially allocated long-term capital gains (losses), from other partnerships and from fiduciaries . . . .

8 Capital gain distributions . . . .

9 Net long-term capital gain (loss) from lines 5, 6, 7, and 8. Enter here and on Schedule B of Form 1065, line 1. Enter each partner's share on Schedule K-1 (Form 1065), line 5 . . . .

General Instructions

(Section references are to the Internal Revenue Code.)

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Purpose of Schedule.—Use Schedule D (Form 1065) to report the sale or exchange of capital assets, except capital gains (losses) that are specially allocated to any partners.

Specially allocated capital gains (losses) to the partnership as a partner in other partnerships and from fiduciaries are to be entered on Schedule D (Form 1065), line 3 or 7, whichever applies. Capital gains (losses) that are specially allocated to partners should be entered on line 4 of Schedules K and K-1 (Form 1065), or line 1 of Schedule B of Form 1065 and line 5 of Schedules K and K-1(Form 1065), whichever apply. See the instructions for Schedules K and K-1 (Form 1065) in the Instructions for Form 1065 for more information.

General Information.—To report sales or exchanges of property other than capital assets, including the sale or exchange of property used in a trade or business and involuntary conversions (other than casualties and thefts), see **Form 4797,** Gains and Losses From Sales or Exchanges of Assets Used in a Trade or Business and Involuntary Conversions, and related instructions.

For amounts received from an installment sale, the holding period rule in effect in the year of sale will determine the treatment of the amounts received as long-term or short-term capital gain.

Report every sale or exchange of property in detail, even though there is no gain or loss.

For more information, see **Publication 544,** Sales and Other Dispositions of Assets.

Note: *For information on liquidations of corporations (including reporting methods for transactions in a section 337 liquidation), see* **Publication 542**, Tax *Information on Corporations, and Publication 544.*

Items for Special Treatment and Special Cases.—The following items may require special treatment:

- Transactions by a securities dealer.
- Wash sales of stock or securities.
- Bonds and other evidence of indebtedness.
- Certain real estate subdivided for sale which may be considered a capital asset.
- Gain on the sale of depreciable property to an 80% owned entity, or to a trust in which the partnership is a beneficiary is treated as ordinary gain.
- Gain on disposition of stock in a Domestic International Sales Corporation or a Foreign Sales Corporation.
- Gain or loss on options to buy or sell, including closing transactions.
- Transfer of property to a foreign corporation as paid-in surplus or as a contribution to capital, or to a foreign trust or partnership.
- Transfer of property to a partnership which would be treated as an investment company if the partnership were incorporated.

For rules on nontaxable exchanges, see Publication 544.

Transfer of Appreciated Property to a Political Organization.— If at the time a partnership transfers property to a political organization the fair market value of the property is more than the partnership's adjusted basis, the partnership must treat

(Continued on back)

this transaction as a sale of property on the date of transfer. Report the fair market value of the property at the time of the transfer as the sales price. Ordinary income or capital gains provisions will apply as if a sale had actually occurred. (See section 84.)

Exchange of Like-Kind Property.—No gain or loss is recognized when property held for use in a trade or business or for investment is exchanged solely for property of a like-kind to be held either for use in a trade or business or for investment. Nevertheless, report the transaction on Schedule D (Form 1065) or Form 4797, whichever applies. For exceptions where the nonrecognition does not apply, see Publication 544.

Section 1031 (nonrecognition of gain (loss) from exchanges solely in-kind) does not apply to any exchange of interests in a partnership. See section 1031(a) for more information.

If the partnership uses Schedule D (Form 1065), identify the property disposed of in column (a). Enter the date of acquisition in column (b) and the date of exchange in column (c). Write "like-kind exchange" in column (d) and enter the cost or other basis in column (e). Enter zero in column (f). (See section 1031.)

Note:

- *See Revenue Ruling 84-52, 1984-1 C.B. 157, when a general partnership interest is converted into a limited partnership interest in the same partnership.*
- *See Revenue Ruling 84-111, 1984-2 C.B. 88, when partnership assets and liabilities are transferred to a newly formed corporation in exchange for all of its stock.*
- *See Revenue Ruling 84-115, 1984-2 C.B. 118, when limited partnership interests in a partnership are contributed in exchange for limited partnership interests in another partnership.*

Capital Gain Distributions.—On line 8, report as long-term capital gain distributions: (a) a capital gain dividend; or (b) the partnership's share of the undistributed capital gain from a regulated investment company. (Also see the instructions for Schedules K and K–1 (Form 1065), line 17, item a. in the Instructions for Form 1065.)

Losses on Worthless Securities.—If any securities that are capital assets become worthless during the tax year, the loss is a loss from the sale or exchange of capital assets as of the last day of the tax year.

Collapsible Corporations.—Gain from the sale or exchange of stock in a collapsible corporation is not a capital gain. (See section 341.)

Losses From Wash Sales.—The partnership cannot deduct losses from a wash sale of stock or securities unless the losses were sustained in connection with the partnership's trade or business. A wash sale occurs if the partnership acquires (by purchase or exchange), or has a contract or option to acquire, substantially identical stock or securities within 30 days before or after the date of the sale or exchange. See section 1091 for more information.

Installment Sales.—If the partnership sold property at a gain, and is to receive any payment in a tax year after the year of sale, it must use the installment method and **Form 6252**, Computation of Installment Sale Income, unless it elects not to use the installment method. The partnership should also use Form 6252 if it received a payment in 1985 from a sale made in an earlier year on the installment method.

Note: *If the partnership is a cash basis partnership that sold stock in one year and received payment in the next year, and it elects out of the installment method, the partnership must include the gain from the sale in income for the year of sale. See Revenue Ruling 82-227, 1982-2 C.B. 89 for more information.*

If the partnership wants to elect out of the installment method, for an installment gain that **is not** specially allocated among the partners, it must do the following on a timely filed return (including extensions):

(1) Report the full amount of the sale on Schedule D (Form 1065).

(2) If the partnership received a note or other obligation and is reporting it at less than face value (including all contingent obligations), state that fact in the margin, enter the face amount of the note or other obligation, and give the percentage of valuation.

If the partnership wants to elect out of the installment method for an installment gain that **is** specially allocated among the partners, it must do the following on a timely filed return (including extensions):

(1) For a **short-term capital gain,** report the full amount of the sale on Schedule K (Form 1065), line 4.

For a **long-term capital gain,** report the full amount of the sale on Schedule B of Form 1065, line 1 and Schedule K (Form 1065), line 5.

(2) Enter each partner's share of the full amount of the sale on Schedule K-1 (Form 1065), line 4 or line 5, whichever applies.

(3) If the partnership received a note or other obligation and is reporting it at less than face value (including all contingent obligations), attach a statement to Form 1065 that states that fact. Also show on the statement the face amount of the note or other obligation and give the percentage of valuation. Label the statement "Specially Allocated Capital Gains from Electing Out of the Installment Method."

If the partnership received more than one note or obligation, list the amounts separately.

Disposition of Foreign Investment in U.S. Real Property Interest.—See section 897.

Section 1256 Contracts and Straddles.—For information on how to report gains and losses from section 1256 contracts and straddles, see **Form 6781,** Gains and Losses From Section 1256 Contracts and Straddles.

If there are limited partners, see section 1256(e)(5) for the limitation on losses from hedging transactions.

Specific Instructions

Column (d). Gross Sales Price.—Enter in this column,the gross sales price from the sale. On sales of stocks and bonds, report the gross amount as reported to the partnership by the partnership's broker on **Form 1099-B**, Statement for Recipients of Proceeds from Broker and Barter Exchange Transactions, or similar statement. However, if the broker advised the partnership that gross proceeds less commissions and option premiums were reported to IRS, enter that net amount in column (d).

Column (e). Cost or Other Basis.—In general, the cost or other basis is the cost of the property plus purchase commissions and improvements and minus depreciation, amortization, and depletion. If the partnership got the property in a tax-free exchange, involuntary conversion, or wash sale of stock, it may not be able to use the actual cash cost as the basis. If the partnership does not use cash cost, attach an explanation of the basis.

When selling stock, adjust the basis by subtracting all the nontaxable distributions received before the sale. This includes nontaxable dividends from utility company stock and mutual funds. Also adjust the basis for any stock splits.

If a charitable contribution deduction is passed through to a partner because of a sale of property to a charitable organization, the adjusted basis for determining gain from the sale is an amount which has the same ratio to the adjusted basis as the amount realized has to the fair market value.

Increase the cost or other basis by any expense of sale, such as broker's fee, commission and option premium before making an entry in column (e), unless the partnership reported net sales price in column (d).

For more information, see **Publication 551,** Basis of Assets.

Lines 3 and 7. Capital Gains and Losses From Other Partnerships and Fiduciaries.—See the Schedule(s) K-1 or other information supplied to you by the other partnership or fiduciary.

SCHEDULE K
(Form 1065)
Department of the Treasury
Internal Revenue Service

Partners' Shares of Income, Credits, Deductions, etc.

▶ **File this form if there are more than ten Schedules K–1 (Form 1065) to be filed with Form 1065.**
▶ **Attach to Form 1065.** ▶ **See Instructions for Schedule K (Form 1065) in the Instructions for Form 1065.**

OMB No. 1545–0099

1985

Name of partnership

Employer identification number

	(a) Distributive share items		**(b) Total amount**
Income (Loss)	1 Ordinary income (loss) (page 1, line 24)	*1	
	2 Guaranteed payments	2	
	3 Dividends qualifying for exclusion	3	
	4 Net short-term capital gain (loss) (Schedule D, line 4)	*4	
	5 Net long-term capital gain (loss) (Schedule D, line 9)	*5	
	6 Net gain (loss) under section 1231 (other than due to casualty or theft)	*6	
	7 Other (attach schedule)	7	
Deductions	8 Charitable contributions (attach list)	8	
	9 Expense deduction for recovery property (section 179) from Form 4562	*9	
	10 Other (attach schedule)	10	
Credits	11 Credit for income tax withheld	11	
	12 Other (attach schedule)	*12	
Self-Employment	13a Net earnings (loss) from self-employment	13a	
	b Gross farming or fishing income	13b	
	c Gross non-farm income	13c	
Tax Preference Items	14a Accelerated depreciation on nonrecovery real property or 15–year or 18–year real property	14a	
	b Accelerated depreciation on leased personal property or leased recovery property other than 15–year or 18–year real property	14b	
	c Depletion (other than oil and gas)	14c	
	d (1) Gross income from oil, gas, and geothermal properties	14d(1)	
	(2) Deductions allocable to oil, gas, and geothermal properties	14d(2)	
	e (1) Qualified investment income included on page 1, Form 1065	14e(1)	
	(2) Qualified investment expenses included on page 1, Form 1065	14e(2)	
	f Other (attach schedule)	14f	
Investment Interest	15a Interest expense on:		
	(1) Investment debts incurred before 12/17/69	15a(1)	
	(2) Investment debts incurred before 9/11/75, but after 12/16/69	15a(2)	
	(3) Investment debts incurred after 9/10/75	15a(3)	
	b (1) Investment income included on page 1, Form 1065	15b(1)	
	(2) Investment expenses included on page 1, Form 1065	15b(2)	
	c (1) Income from "net lease property"	15c(1)	
	(2) Expenses from "net lease property"	15c(2)	
Foreign Taxes	16a Type of income		
	b Foreign country or U.S. possession*		
	c Total gross income from sources outside the U.S. (attach schedule)	*16c	
	d Total applicable deductions and losses (attach schedule)	16d	
	e Total foreign taxes (check one): ▶ ☐ Paid ☐ Accrued	16e	
	f Reduction in taxes available for credit (attach schedule)	16f	
	g Other (attach schedule)	16g	
Other	17 Other items and amounts not included in lines 1 through 16g that are required to be reported separately to partners. See instructions. **Caution:** *Attach a schedule that lists these items and amounts*		

*You are not required to complete lines 1, 6, 9, 12 (see instructions), 16b, and 16c on Schedule K (Form 1065). Completion of these lines is optional because the amounts which would appear in column b appear elsewhere on Form 1065 or on other IRS forms or IRS schedules attached to Form 1065. Lines 4 and 5 must be completed only if any partner has a specially allocated capital gain (loss). (See instructions for line item.)

For Paperwork Reduction Act Notice, see Form 1065 Instructions. **Schedule K (Form 1065) 1985**

SCHEDULE K-1
(Form 1065)
Department of the Treasury
Internal Revenue Service

Partner's Share of Income, Credits, Deductions, etc.

For calendar year 1985 or fiscal year
beginning ______________________, 1985, and ending ______________________, 19___

OMB No. 1545-0099

1985

Partner's identifying number ▶

Partner's name, address, and ZIP code

Partnership's identifying number ▶

Partnership's name, address, and ZIP code

A Is partner a general partner (see page 3 of Instructions for Form 1065)? . . . . ☐ Yes ☐ No

B Partner's share of liabilities (see page 10 of Instructions for Form 1065):
Nonrecourse . . . . $________________
Other . . . . $________________

C What type of entity is this partner? ▶ ______________________

D Enter partner's percentage of:	(i) Before decrease or termination	(ii) End of year
Profit sharing	________%	________%
Loss sharing	________%	________%
Ownership of capital	________%	________%

E IRS Center where partnership filed return ▶ ______________________

F Tax Shelter Registration Number ▶

G Reconciliation of partner's capital account:

(a) Capital account at beginning of year	(b) Capital contributed during year	(c) Ordinary income (loss) from line 1 below	(d) Income not included in column (c), plus nontaxable income	(e) Losses not included in column (c), plus unallowable deductions	(f) Withdrawals and distributions	(g) Capital account at end of year

		(a) Distributive share item	(b) Amount	(c) 1040 filers enter the amount in column (b) on:
Income (Loss)	1	Ordinary income (loss)		Sch. E, Part II, col. (e) or (f)
	2	Guaranteed payments		Sch. E, Part II, column (f)
	3	Dividends qualifying for exclusion		Sch. B, Part II, line 4
	4	Net short-term capital gain (loss).		Sch. D, line 4, col. (f) or (g)
	5	Net long-term capital gain (loss)		Sch. D, line 12, col. (f) or (g)
	6	Net gain (loss) under section 1231 (other than due to casualty or theft)		Form 4797, line 1
	7	Other (attach schedule)		(Enter on applicable lines of your return)
Deductions	8	Charitable contributions		See Form 1040 instructions
	9	Expense deduction for recovery property (section 179)		(See Partner's Instructions for Schedule K-1 (Form 1065))
	10	Other (attach schedule)		(Enter on applicable lines of your return)
Credits	11	Credit for income tax withheld		See Form 1040 instructions, line 57 for Backup Withholding
	12	Other (attach schedule)		(Enter on applicable lines of your return)
Self-employment	13 a	Net earnings (loss) from self-employment		Sch. SE, Part I
	b	Gross farming or fishing income		(See Partner's Instructions for Schedule K-1 (Form 1065))
	c	Gross nonfarm income		
Tax Preference Items	14 a	Accelerated depreciation on nonrecovery real property or 15-year or 18-year real property.		Form 6251, line 4c
	b	Accelerated depreciation on leased personal property or leased recovery property other than 15-year or 18-year real property		Form 6251, line 4d
	c	Depletion (other than oil and gas)		Form 6251, line 4i
	d	(1) Gross income from oil, gas, and geothermal properties		See Form 6251 instructions
		(2) Deductions allocable to oil, gas, and geothermal properties . . .		See Form 6251 instructions
	e	(1) Qualified investment income included in Schedule K-1, line 1 . .		(See Partner's Instructions for Schedule K-1 (Form 1065))
		(2) Qualified investment expenses included in Schedule K-1, line 1		
	f	Other (attach schedule)		

For Paperwork Reduction Act Notice, see Form 1065 Instructions.

Schedule K-1 (Form 1065) 1985

		(a) Distributive share item	(b) Amount	(c) 1040 filers enter the amount in column (b) on:
Investment Interest	15a	Interest expense on:		
		(1) Investment debts incurred before 12/17/69		Form 4952, line 1
		(2) Investment debts incurred before 9/11/75, but after 12/16/69		Form 4952, line 15
		(3) Investment debts incurred after 9/10/75		Form 4952, line 5
	b	(1) Investment income included in Schedule K-1, line 1		(See Partner's Instructions for Schedule K-1 (Form 1065))
		(2) Investment expenses included in Schedule K-1, line 1		
	c	(1) Income from "net lease property"		
		(2) Expenses from "net lease property"		
Foreign Taxes	16a	Type of income		Form 1116, Check boxes
	b	Name of foreign country or U.S. possession		Form 1116, Part I
	c	Total gross income from sources outside the U.S. (attach schedule)		Form 1116, Part I
	d	Total applicable deductions and losses (attach schedule)		Form 1116, Part I
	e	Total foreign taxes (check one): ▶ ☐ Paid ☐ Accrued		Form 1116, Part II
	f	Reduction in taxes available for credit (attach schedule)		Form 1116, Part III
	g	Other (attach schedule)		Form 1116 Instructions
Other	17	Other items and amounts not included in lines 1 through 16g and 18 and 19 that are required to be reported separately to you		(See Partner's Instructions for Schedule K-1 (Form 1065))

Property Eligible for Investment Credit	18	Regular Percentage	Cost or other basis of new recovery property	a 3-Year		Form 3468, line 1(a)
				b Other		Form 3468, line 1(b)
			Cost or other basis of used recovery property	c 3-Year		Form 3468, line 1(c)
				d Other		Form 3468, line 1(d)
		Section 48(q) Election to Reduce Credit (Instead of Adjusting Basis)	Cost or other basis of new recovery property	e 3-year		Form 3468, line 1(e)
				f Other		Form 3468, line 1(f)
			Cost or other basis of used recovery property	g 3-year		Form 3468, line 1(g)
				h Other		Form 3468, line 1(h)
	i	Other property (see instructions for Schedule K-1 in the Instructions for Form 1065)				(See Partner's Instructions for Schedule K-1 (Form 1065))

Property Subject to Recapture of Investment Credit	19	Properties:	A	B	C	
	a	Description of property (State whether recovery or nonrecovery property. If recovery property, state whether regular percentage method or section 48(q) election used.)				Form 4255, top
	b	Date placed in service				Form 4255, line 2
	c	Cost or other basis				Form 4255, line 3
	d	Class of recovery property or original estimated useful life				Form 4255, line 4
	e	Date item ceased to be investment credit property				Form 4255, line 8

1985

Department of the Treasury
Internal Revenue Service

Partner's Instructions for Schedule K-1 (Form 1065)

(For Partner's Use Only)

(Section references are to the Internal Revenue Code, unless otherwise noted.)

Purpose of Schedule K-1 (Form 1065)

The partnership uses Schedule K-1 (Form 1065) to report to you your share of the partnership's income, credits, deductions, etc. Please **keep it for your records. Do not file it with your tax return.** A copy has been filed with the IRS.

Although the partnership is not subject to income tax, you are liable for tax on your share of the partnership income, whether or not distributed, and you must include your share on your tax return. Your share of any partnership income, credit, deduction, etc., must also be reported on your return. Please read ***Limitation on losses*** under line 1 to figure how much of your share of any partnership loss is deductible.

Use these instructions to help you report the items shown on Schedule K-1 on your tax return.

Where "(attach schedule)" appears beside a line item (lines 7, 10, 12, 14f, 16c, 16d, 16f, and 16g), it means you should see the schedule that the partnership has attached for that line.

Where "(see instructions for Form 1065)" appears beside an item or line (Questions A, B and line 18i), it means the partnership should see the Instructions for Form 1065 before completing these lines. You may ignore this notation.

General Information

Inconsistent treatment of items shown on Schedule K-1 (and any attached schedules) or similar statement.—You must treat partnership items on your return consistent with the way the partnership treated the items on its filed return. This rule does not apply if your partnership is within the "small partnership" exception and does not elect to have the section 6231(a)(1)(B)(ii) election apply. See section 6222 for the inconsistent treatment rules.

If your treatment on your original or amended return is (or may be) inconsistent with the partnership's treatment, or if the partnership was required to, but has not filed a return, you must file **Form 8082**, Notice of Inconsistent Treatment or Amended Return (Administrative Adjustment Request (AAR)), with your original or amended return to identify and explain the inconsistency (or to note that a partnership return has not been filed).

If you are required to file Form 8082 but do not do so, you may be subject to the negligence penalty under section 6653(a). This penalty is in addition to any tax that results from making your amount or treatment of the item consistent with that shown on the partnership's return. Any deficiency that results from making the amounts consistent may be assessed immediately.

United States persons with interests in foreign partnerships.—If you have an interest in a foreign partnership, you may be required to report changes in your partnership interest when: you acquire an interest in a foreign partnership; you dispose of any part of your interest in a foreign partnership; or your proportional interest in a foreign partnership changes substantially. See section 6046A and the related regulations for more information.

If you are a U.S. person in a foreign partnership that does not file a partnership return, any losses or credits from that partnership may be disallowed.

Tax shelters.—If you receive a copy of **Form 8271**, Investor Reporting of Tax Shelter Registration Number, or if your partnership is involved in a tax shelter, see the instructions for Form 8271 for the information you are required to furnish to the Internal Revenue Service. Attach the completed form(s) to your income tax return. The tax shelter registration number can be found on Question F of your Schedule K-1 (Form 1065).

Tax treatment of partnership items.—If a partnership return is filed by an entity for a tax year, but it is determined that the entity is not a partnership for that tax year, sections 6221 through 6233 apply to that entity and to persons holding an interest in that entity to the extent provided in the regulations. See section 6233 for more information.

Section 1256 contracts and straddles.—For information on how to report gains and losses from section 1256 contracts and straddles, see **Form 6781,** Gains and Losses From Section 1256 Contracts and Straddles.

Windfall profit tax.—Generally, if you are a producer of domestic crude oil, your partnership will inform you on **Form 6248,** Annual Information Return of Windfall Profit Tax-1985, of your income tax deduction for the windfall profit tax rather than on Schedule K-1 (Form 1065). You will have to determine if you are entitled to a refund of overpaid windfall profit tax. File **Form 6249,** Computation of Overpaid Windfall Profit Tax, to obtain a refund.

Note: *If your partnership elects to be treated as authorized to act on behalf of the partners, the regulations under section 6232 and Revenue Procedure 84-4, 1984-1 C.B. 363, will apply.*

Errors.—If you believe the partnership has made an error on your Schedule K-1, notify the partnership and ask for a corrected Schedule K-1. Do not change any items on your copy. Be sure that the partnership sends a copy of the corrected Schedule K-1 to the Internal Revenue Service. However, see **Inconsistent treatment of items shown on Schedule K-1.**

International boycotts.—Every partnership that had operations in, or related to, a boycotting country, company, or a national of a country, must file **Form 5713**, International Boycott Report.

If the partnership tells you that it did not cooperate with an international boycott, you do not have to file Form 5713, unless you had other boycotting operations.

If the partnership cooperated with an international boycott, it must give you a copy of the form. You also must file Form 5713 to report the activities of the partnership and any other boycott operations of your own. You may lose certain tax benefits if the partnership participated in, or cooperated with, an international boycott. Please see Form 5713 and the instructions for more information.

Definitions.—

General partner.—A general partner is a member of the organization who is personally liable for the obligations of the partnership.

Limited partner.—A limited partner is one whose potential personal liability for partnership debts is limited to the amount of money or other property that the partner contributed or is required to contribute to the partnership.

Limited partnership.—A limited partnership is a partnership composed of at least one general partner and one or more limited partners.

Nonrecourse loans.—Nonrecourse loans are those liabilities of the partnership for which none of the partners have any personal liability.

Elections.—Generally, the partnership decides how to figure taxable income from its operations. For example, it chooses the accounting method and depreciation methods it will use.

However, certain elections are made by you separately on your income tax return and not by the partnership. These elections are made under:

- Section 57(c) (definition of net lease);
- Section 108(b)(5) or 108(d)(4) (income from discharge of indebtedness);
- Section 163(d)(6) (limitation on interest on investment indebtedness);
- Section 617 (deduction and recapture of certain mining exploration expenditures, paid or incurred); and
- Section 901 (foreign tax credit).

If you are an individual partner (including estates and trusts), you may make an election under section 58(i) to deduct ratably over the period of time specified in section 58(i), certain qualified expenditures. For more information, see the instructions for line 17, item g.

Additional Information.—For more information on the treatment of partnership income, credits, deductions, etc., see: **Publication 541**, Tax Information on Partnerships; **Publication 535**, Business Expenses; **Publication 536**, Net Operating Losses and the At-Risk Limits; **Publication 550**, Investment Income and Expenses; and **Publication 556**, Examination of Returns, Appeal Rights, and Claims for Refund.

Specific Instructions

Name, address, and identifying number.—Your name, address, and identifying number, as well as the partnership's name, address, and identifying number, should be entered.

Question A. Is partner a general partner?—Be sure the partnership has answered this question and that it is answered correctly.

Question B. Partner's share of liabilities.—Question B should show your share of the partnership's nonrecourse liabilities and other liabilities as of the end of the partnership's tax year. If you terminated your interest in the partnership during the tax year, Question B should show the share that existed immediately before the total disposition. (A partner's "other liability" is any partnership liability for which a partner is personally liable.)

Use the total of the two amounts for computing the adjusted basis of your partnership interest. Use the amount shown next to "Other" to compute your amount at risk. Do not include any amounts that are not at risk that may be included in "Other."

If your partnership is engaged in two or more different types of at-risk activities, or a combination of at-risk activities and any other activity, the partnership should give you a statement showing your share of nonrecourse liabilities and other liabilities for each activity.

See ***Limitation on losses*** under line 1 for more information.

Lines 1-19

If you are an individual partner, take the amounts shown in column (b) and enter them on the lines on your tax return as indicated in column (c). If you are not an individual partner, report the amounts in column (b) as instructed on your tax return.

The line numbers in column (c) are references to forms in use for calendar year 1985. If you file your tax return on a calendar year basis, but your partnership files a fiscal year 1985/1986 partnership return, enter these amounts on the corresponding lines of the tax forms in use for 1986.

If you have losses, deductions, credits, etc., from a prior year that were not deductible or useable because of certain limitations, such as the at-risk rules, they may be taken into account in determining your net income, loss, etc., for this year. However, do not combine the prior-year amounts with any amounts shown on this Schedule K-1 to get a net figure to report on any supporting schedules, statements, or forms (such as **Schedule E (Form 1040),** Supplemental Income Schedule) attached to your return. Instead, report the amounts on the attached schedule, statement, or form on a year-by-year basis.

If you have amounts, other than line 1, to report on Schedule E (Form 1040), enter each item on a separate line of Part II of Schedule E, column (e) or (f), whichever applies. Enter any deduction items in column (e).

Line 1. Ordinary income (loss).—The amount shown should reflect your share of ordinary income (loss) from all partnership business operations, including at-risk activities, without reference to the adjusted basis of your partnership interest or your amount at risk.

Limitation on losses.—Generally, you may not claim your share of a partnership loss (including capital loss) that is greater than the adjusted basis of your partnership interest at the end of the partnership's tax year. See Publication 541 for a discussion on how to determine your correct adjusted basis for tax purposes.

However, if you have (1) a loss (including losses from the disposition of assets or any part of an interest), or other deductions such as the expense deduction for recovery property (section 179), from any activity (except the holding of real property, other than mineral property) carried on as a trade or business or for the production of income by the partnership, and (2) amounts in the activity for which you are not at risk (described below), use **Form 6198**, Computation of Deductible Loss From an Activity Described in Section 465(c), to figure the allowable loss or deduction to report on your return. (If you have a loss or other deductions but do not have any amounts not at risk, or you have a loss from a non at-risk activity, deduct the amount of the loss and other deductions or the adjusted basis of your partnership interest, whichever is less.)

Generally, you are not at risk for amounts such as the following:

- Nonrecourse loans used to finance the activity, to acquire property used in the activity, or to acquire your interest in the activity, that are not secured by your own property (other than that used in the activity).
- Cash, property, or borrowed amounts used in the activity (or contributed to the activity, or used to acquire your interest in the activity) that are protected against loss by a guarantee, stop-loss agreement, or other similar arrangement (excluding casualty insurance and insurance against tort liability).
- Amounts borrowed for use in the activity from a person who has an interest in the activity, other than as a creditor, or who is related, under section 168(e)(4), to a person (other than yourself), having such an interest. An exception applies, however, to an interest as a shareholder in the case of amounts borrowed by a corporation from the shareholder.

To help you complete Form 6198, the partnership should give you your share of the total pre-1976 loss(es) from a section 465(c)(1) activity (i.e., films or video tapes, leasing section 1245 property, farm, or oil and gas property) for which there existed a corresponding amount of nonrecourse liability at the end of the year in which this loss(es) occurred. In addition, you should get a separate statement of income, expenses, etc., for each activity from the partnership.

Special transitional rules for movies, video tapes, and leasing activities can be found in section 204(c)(2) and (3) of the Tax Reform Act of 1976 and Publication 536.

Lines 4 and 5. Net short-term and net long-term capital gain (loss).—If any of the gain or loss is from investment property, the partnership should give you a statement breaking down the net short-term and long-term capital gain from investment property. You need this to compute the investment interest expense limitation. See **Form 4952,** Investment Interest Expense Deduction, for more information.

Line 6. Net gain (loss) under section 1231 (other than due to casualty or theft).—The amount on this line is to be entered on line 1, column (g) or (h), whichever is applicable, of **Form 4797,** Gains and Losses From Sales or Exchanges of Assets Used in a Trade or Business and Involuntary Conversions. You do not have to complete the information called for on columns (b) through (f). Write "From Schedule K-1 (Form 1065)" across these columns.

Line 7. Other income (loss).—Amounts on this line are other items of income, gain, or loss not included on lines 1-6, such as:

- Partnership gains from disposition of farm recapture property (see Form 4797) and other items to which section 1252 applies.
- Recoveries of bad debts, prior taxes, and delinquency amounts (section 111). Report on line 22, Form 1040.
- Gains and losses from wagers (section 165(d)).
- Any income, gain, or loss to the partnership under section 751(b). Report this amount on line 15, Form 4797.
- Specially allocated ordinary gain (loss). Report this amount on Form 4797, line 15.
- Net gain (loss) from involuntary conversions due to casualty or theft. The partnership will give you a schedule that shows the amounts to be entered on **Form 4684**, Casualties and Thefts, Section B, Part II, line 16, columns B(i), B(ii), and C.

The partnership should give you a description and the amount of your share for each of these items.

Line 8. Charitable contributions.—The partnership will give you a schedule that shows which contributions were subject to the 50%, 30%, and 20% limitations. For further information, see the Form 1040 Instructions.

If contributions of property other than cash are made and if the fair market value of one item or group of similar items of property exceeds $5,000, the partnership is required to file **Form 8283,** Noncash Charitable Contributions, and give you a copy to attach to your tax return. Do not deduct the amount shown on this form. It is the partnership's contribution. You should deduct the amount shown on line 8 of your Schedule K-1 (Form 1065).

If the partnership provides you with information that the contribution was property other than cash and does not give you a Form 8283, see the **Instructions for Form 8283** for filing requirements. A Form 8283 does not need to be filed unless the total claimed value of all contributed items of property exceeds $500.

Line 9. Expense deduction for recovery property.—See **Form 4562**, Depreciation and Amortization, for more information. If you are an individual partner, also see Schedule E (Form 1040), Part II, line 29, and the related instructions.

Line 10. Other deductions.—Amounts on this line are other deductions not included on lines 8-9, such as:

- Other itemized deductions (1040 filers enter on **Schedule A (Form 1040),** Itemized Deductions).

Note: *If there was a gain (loss) from a casualty or theft to property not used in a trade or business or for income-producing purposes, you will be notified by the partnership. You will have to complete your own Form 4684.*

- Any penalty on early withdrawal of savings.
- Soil and water conservation expenditures (section 175) and expenditures by farming partnerships for clearing land (section 182).
- Expenditures for the removal of architectural and transportation barriers to the elderly and handicapped incurred before January 1, 1986, which the partnership has elected to treat as a current expense (section 190).
- Payments for a partner to an IRA, Keogh, or a Simplified Employee Pension plan. See Form 1040 Instructions for line 26 of Form 1040 in order to figure your IRA deduction. Payments made to a Keogh or SEP plan will be entered on Form 1040, line 27. If the payments to a Keogh plan were to a defined benefit plan, the partnership should give you a statement showing the amount of the benefit accrued for the tax year.

The partnership should give you a description and the amount of your share for each of these items.

Line 12. Other credits.—Amounts on this line are other credits (other than investment credit which is reported on line 18) such as:

- Nonconventional source fuel credit.
- Unused credits from cooperatives.
- The credit for increasing research activities and orphan drug credit (enter these credits on **Form 6765**, Credit for Increasing Research Activities).
- Jobs Credit. Complete **Form 5884,** Jobs Credit, and attach it to your return. See the form for definitions, special rules, and limitations.
- Credit for alcohol used as fuel. Complete **Form 6478,** Credit for Alcohol Used as Fuel, and attach it to your return.

The partnership should give you a description and the amount of your share for each of these items.

Lines 13a, 13b, and 13c: If you and your spouse are both partners, each of you must complete and file your own **Schedule SE (Form 1040)**, Computation of Social Security Self-Employment Tax, to report your partnership earnings (loss) from self-employment. Do not report the self-employment amounts for both of you on one Schedule SE (Form 1040).

Line 13a. Net earnings (loss) from self-employment.—Before entering this amount on Schedule SE (Form 1040), you must adjust it by any section 179 expense claimed, unreimbursed partnership expenses claimed, and depletion claimed on oil and gas properties.

If the amount on this line is a loss, enter only the deductible amount on Schedule SE (Form 1040). See ***Limitation on losses*** under the instructions for line 1.

If your partnership is an options dealer or a commodities dealer, see section 1402(i).

Line 13b. Gross farming or fishing income.—If you are an individual partner, enter the amount from this line on Schedule E (Form 1040), Part IV, line 37. You may also use this amount to figure self-employment income under the optional method on Schedule SE (Form 1040), Part II.

Line 13c. Gross nonfarm income.—If you are an individual partner, use this amount to figure self-employment income under the optional method on Schedule SE (Form 1040), Part II.

Lines 14d(1) and (2), and 14e(1) and (2).—Generally, the amounts shown on each of these lines are not the total gross income from, and total deductions allocable to, oil, gas, and geothermal properties and not the total qualified investment income or expenses for this partnership. The partnership should attach a schedule that shows the amount of gross income from, and deductions allocable to, oil, gas, and geothermal properties and the amount of qualified investment income and expenses included in the amount shown in column (b) for lines 2 through 10 and for line 17.

Do not use any part of the amount shown on line 1 of this Schedule K-1 to complete Form 6251. This amount has been included in the amounts shown on lines 14d and 14e.

Lines 14d(1) and (2). Gross income from, and deductions allocable to, oil, gas, and geothermal properties.—To determine the net amount to use in figuring the amount to be included on line 4k of **Form 6251**, Alternative Minimum Tax Computation, add to the amounts shown on lines 14d(1) and (2) the gross income from, and deductions allocable to, oil, gas, and geothermal properties from all other sources, including any such income and expenses shown on lines 2 through 10 and 17 of this Schedule K-1.

Lines 14e(1) and (2). Qualified investment income and qualified investment expenses.—To determine the net amount to enter on line 2e(2) of Form 6251, add to the amounts shown on lines 14e(1) and (2) the qualified investment income and expenses from all other sources, including any qualified investment income and expenses shown on lines 2 through 10 and 17 of this Schedule K-1. Enter the net result (but not less than zero) on line 2e(2) of Form 6251.

Line 14f. Other.—Enter the information on the schedule attached by the partnership for line 14f on the applicable lines of Form 6251.

Line 15. Investment interest.—If the partnership paid or accrued interest on debts it incurred to buy or hold investment property, the amount of interest you can deduct may be limited. The partnership should have entered the interest on investment debts and items of investment income and expenses.

For more information and the special provisions that apply to "out-of-pocket" expenses and rental income from property subject to a net lease, see section 163(d) and Publication 550. (Individuals, estates, and trusts, also see Form 4952.)

Note: *Generally, if your **total** investment interest expense including investment interest expense **from all other sources** (including carryovers, etc.) is less than $10,000 ($5,000 if married filing separately), you do not need to get Form 4952. Instead, you may enter the amounts of investment interest directly on Schedule A (Form 1040). The partnership will tell you if any of the amounts should be reported on Schedule E (Form 1040).*

Lines 15b(1) and (2). Investment income and investment expenses.—Use the amounts on these lines to determine the amount to enter on lines 2 or 10a of Form 4952.

Caution: *Generally, the amount shown on each of these lines is not the total investment income or expenses for this partnership. The partnership should attach a schedule which shows the amount of investment income and expenses included in the amount shown in column (b) for lines 2 through 10 and for line 17.*

You will have to adjust lines 15b(1) and (2) for any other investment income or expenses included in lines 2 through 10 and 17 to determine the total investment income and total investment expenses for this partnership.

Do not use any part of the amount shown on line 1 of this Schedule K-1 to complete Form 4952. This amount has been included *in the amount shown on lines 15b(1) and (2). To determine the amount to enter on Form 4952, add to the amount on lines 15b(1) and (2) the investment income and expenses from all other sources including any investment income and investment expenses shown on lines 2 through 10 and 17 of this Schedule K-1.*

Report the amounts on lines 15b(1) and (2) as follows:

- If (1) there is an entry on line 15a(1) or you had interest expense on investment debts incurred before 12/17/69; and (2) there is an entry on lines 15b(1) or (2) or you had investment income (loss) in 1985; combine the amount on lines 15b (1) and (2) with your other investment income and investment expenses from all sources and enter the result (but not less than zero) on line 2 of Form 4952. Complete lines 3 and 4 of Form 4952. Then enter the amount from line 4 of Form 4952 on line 10a of Form 4952.
- If there is not an entry on line 15a(1) and you do not have interest expense on investment debts incurred before 12/17/69, combine the amounts on lines 15b(1) and (2) with your other investment income and investment expenses from all sources and enter the result (but not less than zero) on line 10a of Form 4952.

Lines 15c(1) and (2). Income and expenses from "net lease property."—Use the amounts on these lines to determine the net amount to enter on lines 11 and 19 of Form 4952.

Lines 16a-16g. Foreign taxes.—Use the information on lines 16a through 16g, and on any attached schedules, to figure your foreign tax credit. For more information, see: **Form 1116,** Computation of Foreign Tax Credit—Individual, Fiduciary, or Nonresident Alien Individual, and the related instructions; **Form 1118,** Computation of Foreign Tax Credit—Corporations, and the related instructions; and **Publication 514**, Foreign Tax Credit for U.S. Citizens and Resident Aliens.

Line 17. Other.—Amounts included on the statement for this line are other amounts not included elsewhere such as:

a. Taxes paid on undistributed capital gains by a regulated investment company. (Form 1040 filers enter your share of these taxes on line 63, and add the words "From 1065.")

b. Number of gallons of the fuels used during the tax year and the appropriate tax rate for each type of use identified on **Form 4136**, Computation of Credit for Federal Tax on Gasoline and Special Fuels, and in the related instructions. Your share of the credit allowed for qualified diesel-powered highway vehicles as shown on Form 4136.

c. Your share of gross income from the property, share of production for the tax year, etc., needed to figure your depletion deduction for oil and gas wells. The partnership should also allocate to you a share of the adjusted basis of each partnership oil or gas property. The allocation of the basis of each property is made as specified in section 613A(c)(7)(D). See Publication 535 for how to figure your depletion deduction.

d. If you are a corporation, any income allocable to you that is "timber preference income" under section 57(e).

e. Tax-exempt interest income earned by the partnership. If you are an individual partner, use this amount in determining the taxable part of any social security or railroad retirement benefits you may receive.

f. Recapture of expense deduction under section 179. If the recapture was caused by a disposition of the property, include the amount on Form 4797, line 14.

The amount to be recaptured will be limited to the amount you deducted in the prior year.

g. Total qualified expenditures (and the applicable period) paid or incurred during the tax year to which an election under section 58(i) applies and 58(i) type expenditures for corporate partners.

If you are an individual partner (including an estate or trust), you may either deduct the total amount of these expenditures or you may make an election under section 58(i) to deduct them ratably over the period of time specified in section 58(i). If you choose to make the election under section 58(i), these qualified expenditures will not be classified as tax preference items and thus will not be subject to the alternative minimum tax. See section 58(i) and make the election on **Form 4562,** Depreciation and Amortization.

If intangible drilling costs are passed through to you, see item h, which follows, before deducting them under section 58(i). If you are a limited partner, see section 58(i)(4).

h. Intangible drilling costs (IDCs) under section 263. See Publication 535 for more information. If you are an individual partner (including an estate or trust), you may choose to deduct IDCs under section 263 or under section 58(i), but not both.

i. Deduction and recapture of certain mining exploration expenditures paid or incurred. You may choose to deduct these expenditures under section 617 or under section 58(i), but not both.

If you are not eligible to make an election under section 58(i) or you choose not to make this election, deduct the section 58(i) expenditures in full on your return, subject to any other limitations, such as the at-risk limitations.

If you are an individual partner, enter the amount you are deducting on Schedule E (Form 1040), Part II, column (e).

j. Any items you need to determine the basis of your partnership interest for purposes of section 704(d) because Question G on Schedule K-1 is not completed; or any items (other than those shown in Question B) you need to figure your amount at risk.

k. Any information or statements you need to comply with section 6661 (regarding substantial understatement of tax liability) or section 6111 (regarding tax shelters).

l. Real property construction period interest and taxes for other than low-income housing or any real property acquired, constructed, or carried if the property is not and cannot reasonably be expected to be held in a trade or business, or in an activity conducted for profit. See section 189 for more information.

m. Any other information you may need to file your return that is not shown elsewhere on Schedule K-1.

The partnership should give you a description and the amount of your share for each of these items.

Line 18. Property eligible for investment credit.—Your share of the partnership's investment in property that qualifies for the investment credit should be entered. You can claim a tax credit based on your pro rata share of this investment by filing **Form 3468**, Computation of Investment Credit. In addition to the qualifying property reported on lines 18a through h, the partnership will give you a separate schedule that shows your share of the partnership's investment in nonrecovery property, new commuter highway vehicle property, used commuter highway vehicle property, qualified rehabilitation expenditures, and energy property that qualifies for the credit, and where to report these items.

Line 19. Property subject to recapture of investment credit.—When investment credit property is disposed of, ceases to qualify or there is a decrease in the percentage of business use before the "life-years category" or "recovery period" assigned, you will be notified. You may have to recapture (pay back) the investment credit taken in prior years. Use the information on line 19 to figure your recapture tax on **Form 4255**, Recapture of Investment Credit. See the Form 3468 on which you took the original credit for other information you need to complete Form 4255.

You may also need Form 4255 if you disposed of more than one-third of your interest in a partnership. See **Publication 572**, Investment Credit, for more information.

Please Do Not Staple ▶

6969 ☐ CORRECTED For Official Use Only ☐

Form **1096**
Department of the Treasury
Internal Revenue Service

Annual Summary and Transmittal of U.S. Information Returns

OMB No. 1545-0108

1985

Type or machine print FILER'S name

Street address

City, state, and ZIP code

Enter in Box 1 or 2 below the identification number you used as the filer on the attached information returns. Do not fill in both Boxes 1 and 2.

1 Employer identification number	2 Social security number
3 Total number of documents	**4 Number without taxpayer identification numbers**

OCR Form
Do NOT Photocopy

Check only one box below to indicate the type of forms attached.

1098 81	1099-A 80	1099-B 79	1099-DIV 91	1099-G 86	1099-INT 92	1099-MISC 95	1099-OID 96	1099-PATR 97	5498 28
☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

Under penalties of perjury, I declare that I have examined this return, and accompanying documents, and to the best of my knowledge and belief, they are true, correct, and complete.

Signature ▶ .... **Title ▶** .... **Date ▶** ....

Please return this entire page to the Internal Revenue Service.

Paperwork Reduction Act Notice

We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Instructions

Changes You Should Note.—The boxes for designating "Nominee/Middleman 1099's" have been deleted. If you are transmitting Forms 1099 for payments you received on behalf of another person, you no longer need to separate them from regular information returns you file. Complete Form 1096 as described in the instructions that follow.

Form 1096 may now be used to transmit Forms 1098 and 1099-A.

Do not mark in the box to the right of "For Official Use Only" at the top of the form. The box is for use by Internal Revenue Service only.

Purpose of Form.—Use this form to transmit Forms 1098, 1099, and 5498 to the Internal Revenue Service. However, use **Form W-3G** to transmit **Form 1099-R**.

Completing Form 1096.—Enter the filer's name, address, and taxpayer identification number (TIN) in the spaces provided on the form. A filer includes a payer, a recipient of mortgage interest payments, a broker, a barter exchange, a trustee or issuer of an individual retirement arrangement (including an IRA, SEP, or DEC), and a lender who acquires an interest in secured property or who has reason to know that the property has been abandoned. Individuals not in a trade or business should enter their social security number in Box 2; sole proprietors and all others should enter their employer identification number in Box 1. However, sole proprietors who are not required to have an employer identification number should enter their social security number in Box 2.

Group the forms by form number and submit each group with a separate Form 1096. For example, if you must file both Forms 1099-DIV and Forms 1099-INT, complete one Form 1096 to transmit your Forms 1099-DIV and another Form 1096 to transmit your Forms 1099-INT.

In Box 3, enter the number of documents attached to Form 1096 and check the appropriate box to indicate the type of form you are transmitting.

If you are transmitting forms that include TIN's and others with no TIN's, you may submit them with one Form 1096, as long as they are all the same form number, if they are bundled separately. Show the total number of documents being transmitted in Box 3. Also, show the number of forms without TIN's in Box 4.

For more information about where and when to file, etc., see the separate Instructions for Form 1099 Series, 1098, 5498, and 1096.

If you are filing a Form 1096 for corrected information returns, mark over the "X" in the CORRECTED box at the top of this form.

7979 ☐ VOID ☐ CORRECTED For Official Use Only

Type or machine print PAYER'S name, street address, city, state, and ZIP code

1a Date of sale

1b CUSIP No.

OMB No. 1545-0715

1985

Statement for Recipients of

Proceeds from Broker and Barter Exchange Transactions

2 Stocks, bonds, etc.

Reported to IRS ☐ Gross proceeds ☐ Gross proceeds less commissions and option premiums

PAYER'S Federal identification number

RECIPIENT'S identification number

3 Bartering

4 Federal income tax withheld

Type or machine print RECIPIENT'S name (first, middle, last)

Street address

City, state, and ZIP code

Account number (optional)

5 Description

Regulated Futures Contracts

6 Profit or (loss) realized in 1985

7 Unrealized profit or (loss) on open contracts—12/31/84

8 Unrealized profit or (loss) on open contracts—12/31/85

9 Aggregate profit or (loss)

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For Paperwork Reduction Act Notice and instructions for completing this form, see Instructions for Form 1099 Series, 1098, 5498, and 1096.

Form **1099-B**

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Department of the Treasury - Internal Revenue Service

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9292 ☐ VOID ☐ CORRECTED For Official Use Only

Type or machine print PAYER'S name, street address, city, state, and ZIP code

OMB No. 1545-0112

1985

Statement for Recipients of

Interest Income

PAYER'S Federal identification number

RECIPIENT'S identification number

1 Earnings from savings and loan associations, credit unions, bank deposits, bearer certificates of deposit, etc.

Type or machine print RECIPIENT'S name (first, middle, last)

Street address

City, state, and ZIP code

Account number (optional)

2 Amount of forfeiture

3 U.S. Savings Bonds, etc.

4 Federal income tax withheld

5 Foreign tax paid (if eligible for foreign tax credit)

6 Foreign country or U.S. possession

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For Paperwork Reduction Act Notice and instructions for completing this form, see Instructions for Form 1099 Series, 1098, 5498, and 1096.

Form **1099-INT**

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Department of the Treasury - Internal Revenue Service

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9595 ☐ VOID ☐ CORRECTED For Official Use Only

Type or machine print PAYER'S name, street address, city, state, and ZIP code		1 Rents	OMB No.1545-0115 1985 Statement for Recipients of	**Miscellaneous Income**
		2 Royalties		
PAYER'S Federal identification number	RECIPIENT'S identification number	3 Prizes and awards	4 Federal income tax withheld	**Copy A For Internal Revenue Service Center** For Paperwork Reduction Act Notice and instructions for completing this form, see Instructions for Form 1099 Series, 1098, 5498, and 1096.
▶ Type or machine print RECIPIENT'S name (first, middle, last)		5 Fishing boat proceeds	6 Medical and health care payments	
Street address		7 Nonemployee compensation	8 Substitute payments in lieu of dividends or interest	
City, state, and ZIP code		9 Payer made direct sales of $5,000 or more of consumer products to a buyer (recipient) for resale ▶ ☐		
Account number (optional)				

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Form **1099-MISC**

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Department of the Treasury - Internal Revenue Service

9191 ☐ VOID ☐ CORRECTED For Official Use Only

Type or machine print PAYER'S name, street address, city, state, and ZIP code		1 Gross dividends and other distributions on stock	OMB No.1545-0110 1985 Statement for Recipients of	**Dividends and Distributions**
		2 Dividends qualifying for exclusion		
PAYER'S Federal identification number	RECIPIENT'S identification number	3 Dividends not qualifying for exclusion	4 Federal income tax withheld	**Copy A For Internal Revenue Service Center** For Paperwork Reduction Act Notice and instructions for completing this form, see Instructions for Form 1099 Series, 1098, 5498, and 1096.
▶ Type or machine print RECIPIENT'S name (first, middle, last)		5 Capital gain distributions	6 Nontaxable distributions (if determinable)	
Street address		7 Foreign tax paid	8 Foreign country or U.S. possession	
City, state, and ZIP code		**Liquidation Distributions**		
Account number (optional)		9 Cash	10 Noncash (Fair market value)	

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Form **1099-DIV**

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Department of the Treasury - Internal Revenue Service

1985 (Rev. 7-85) **Department of the Treasury Internal Revenue Service**

(This 7-85 revision of the 1985 Instructions corrects General Instruction C, Where to File, only.)

Instructions for Form 1099 Series, 1098, 5498, and 1096

(Including Forms 1099-A, 1099-B, 1099-DIV, 1099-G, 1099-INT, 1099-MISC, 1099-OID, 1099-PATR, and 1099-R)

(Section references are to the Internal Revenue Code, unless otherwise noted.)

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Highlights

New Form 1098—Mortgage Interest Statement

For 1985, a new reporting requirement has been established for persons who receive mortgage interest. If, in the course of your trade or business, you receive at least $600 of mortgage interest from an individual for the calendar year, you must file Form 1098 and furnish a statement to the individual. At the time of publication of this document, instructions for Form 1098 were not available. Form 1098 and instructions will be issued later.

New Form 1099-A—Acquisition or Abandonment of Secured Property

For 1985, a new information reporting requirement has been established for persons who lend money secured by property. If you lend money in connection with your trade or business and, in full or partial satisfaction of the debt, you acquire an interest in property that is security for the debt, you must file Form 1099-A. You must also file Form 1099-A if you have reason to know that such property has been abandoned. In addition, you must furnish a statement to each borrower whose debt was secured by the acquired or abandoned property. See *Form 1099-A* under *Specific Instructions*, for more information.

Form 1099-INT Change

A new box has been added for reporting interest on U.S. Savings Bonds, Treasury bills, Treasury bonds, and Treasury notes. For 1985 and following years, report such interest in Box 3, Form 1099-INT.

Brokers—Report of Substitute Interest or Dividends

Brokers are subject to a new reporting requirement for payments received after 1984. Brokers who transfer securities of a customer for use in a short sale must use Box 8 of Form 1099-MISC to report the aggregate payments received in lieu of dividends or tax-exempt interest on behalf of a customer while the short sale was open. Generally, for substitute payments in lieu of dividends, a broker is required to furnish a Form 1099-MISC to each affected customer who is not an individual. See *Form 1099-MISC* under *Specific Instructions*, for more information.

Form 1099-R Changes

A new box has been added for your convenience for showing any state income tax withheld. Box 10 may be used for this information, if you wish.

Because the plan administrator must now provide a written explanation of rollover and 10-year averaging provisions to the recipient at the time of distribution, the checkboxes for lump-sum distributions have been eliminated.

Form 5498 Changes

For 1985 and following years, you must report contributions made for the calendar year through April 15 of the following year. The due date for Form 5498 has been changed to May 31. Trustees or issuers of endowment contracts having a life insurance feature must separately show the contributions allocable to life insurance. For more information, see *Form 5498* under *Specific Instructions*.

Backup Withholding

Interest, dividends, rents, royalties, commissions, nonemployee compensation, and certain other payments (including broker and barter exchange transactions, and certain payments made by fishing boat operators) may be subject to backup withholding at a 20% rate. To be subject to backup withholding, a payment must be a reportable interest or dividend payment under sections 6049(a), 6042(a), or 6044 (if at least 50% of the patronage dividend is in money), or a reportable other payment under sections 6041, 6041A(a), 6045, or 6050A. If the payment is one of these reportable payments, backup withholding will apply if:

(1) The payee fails to furnish his or her taxpayer identification number (TIN) to you, OR

(2) IRS notifies you that the payee furnished an incorrect TIN, OR

(3) You are notified that the payee is subject to backup withholding (under section 3406(a)(1)(C)), OR

(4) For interest and dividend accounts opened or instruments acquired after 1983, the payee fails to certify to you, under penalties of perjury, that he or she is not subject to backup withholding under (3) above, OR

(5) For interest, dividend, broker, or barter exchange accounts opened or instruments acquired after 1983, or broker accounts considered inactive in 1983, the payee fails to certify, under penalties of perjury, that the TIN provided is correct.

Reportable other payments are subject to backup withholding only if (1) or (2) above applies.

Some payees are exempt from backup withholding. For a list of types of exempt payees and other information, please see **Form W-9,** Payer's Request for Taxpayer Identification Number and Certification.

Generally, the period for which the 20% should be withheld is as follows:

(1) Failure to furnish TIN in the manner required.—Withhold on payments made until the TIN is furnished in the manner required, unless the payee has applied for a TIN. The payee may certify to this on Form W-9 by noting "Applied For" in the TIN block and by signing the form. This form then becomes an "awaiting-TIN certificate." If the TIN is not received and certified, if required, within 60 days, begin withholding and continue until you receive a TIN in the manner required.

(2) Receipt of notification from IRS that payee's TIN is incorrect.—Start withholding on payments made on the 31st day after you receive notification from IRS. Stop withholding when another TIN is furnished in the manner required. **Note:** *IRS will furnish an additional copy of the notice to you, and you are required to promptly furnish such notice to the payee. If the payee furnishes you with another TIN, you are required to promptly notify IRS of the new TIN.*

(3) Receipt of notification that payee is subject to backup withholding.—Start withholding on payments made on the 31st day after you receive notification from IRS. IRS will notify you in writing when to stop withholding, or the payee may furnish to you a written certification from IRS stating when withholding is to stop. In most cases, the stop date will be January 1 of the year following the year of the notice. **Note:** *You must notify the payee when withholding under this procedure starts.*

(4) Payee failure to certify that he or she is not subject to backup withholding.—Withhold on reportable interest and dividends until certification has been provided.

For exceptions to these general timing rules, see section 3406(e).

Reporting and Payment of Backup Withholding.—Backup withholding amounts will be reported on **Form 941,** Employer's Quarterly Federal Tax Return, (or **Form 941E**, Quarterly Return of Withheld Federal Income Tax). For more information, see the instructions for Form 941 (or Form 941E).

Penalties

The following penalties generally apply to certain payers (and filers of Forms 1098 and 1099-A). The penalties apply to paper filers as well as magnetic media filers. A penalty of $50 per failure applies to:

- Each failure to timely file an information return. (Section 6652)
- Each failure to furnish the recipient's TIN on an information return. (Section 6676(a))
- Each failure to report the recipient's correct TIN on an information return for payments of interest and dividends. (Section 6676(b))
- Each failure to timely furnish a statement to a payee. (Section 6678)

Any payer who fails to include his or her TIN in any return, statement, or document is subject to a $5 penalty for each such failure unless the failures were due to reasonable cause and not willful neglect. (Section 6676)

Any person required to provide reports on individual retirement accounts or annuities on Form 5498, but fails to do so, is subject to a penalty of $50 for each failure unless the failure is due to reasonable cause. (Section 6693)

Interest and dividend payments; self-assessed penalties.—The penalties relating to information returns for interest and dividend payments apply unless you exercised due diligence in attempting to satisfy the requirements for such TIN, statement, or return. In addition, the penalties relating to payments of interest and dividends are self-assessed. Use **Form 8210**, Self-Assessed Penalties Return, for this purpose. For information on due diligence, see Temporary Regulations section 35a.9999 and the instructions for Form 8210.

Other payments.—The penalties relating to information returns for payments other than interest and dividends apply unless the failures were due to reasonable cause and not willful neglect.

Magnetic Media Reporting

Magnetic media reporting may be required for reporting interest, dividends, and broker and barter exchange transactions; see below. We encourage filing all other information returns on magnetic tape, diskette, magnetic disk, or cassette or mini-disk. Revenue Procedures for magnetic media reporting are available at Internal Revenue Service Centers and district offices. Different types of payments such as interest, dividends, and rents may be reported on the same tape or disk submission. Payers have found magnetic media reporting to be economical, efficient, and more flexible for integrating the reporting required under the Internal Revenue Code with their reporting to other government agencies.

Form 4419, Application for Magnetic Media Reporting of Information Returns, must be filed prior to submitting returns on magnetic media. IRS will provide a written reply to the applicant and further instructions at the time of approval. Generally, the application must be filed with the Magnetic Media Coordinator at the service center where the returns will be filed. However, beginning January 1, 1985, Forms 4419 and information returns filed on magnetic media that would normally be sent to the Philadelphia, Kansas City, and Austin Service Centers should instead be filed with Magnetic Media Reporting, Internal Revenue Service, National Computer Center, P.O. Box 1359, Martinsburg, WV 25401-1359. Beginning January 1, 1986, magnetic media for **all** service centers will be centralized at the National Computer Center and all applications and information returns filed on magnetic media should be sent to the National Computer Center address in 1986.

Payers who file information returns on magnetic media should be sure that duplicate returns are not filed on paper returns. If part of your returns are filed on paper, include a statement on **Form 1096**, Annual Summary and Transmittal of U.S. Information Returns, that the remaining returns are being filed on magnetic media.

The due dates for magnetic media reporting are the same as for paper document reporting.

Interest and dividends.—Any person who is required to file information returns for payments of dividends, patronage dividends, or interest (Forms 1099-DIV, 1099-PATR, 1099-INT, and 1099-OID) to more than 50 payees for any calendar year must file the returns with the IRS on magnetic media. For example, if a payer must file 30 Forms 1099-DIV and 25 Forms 1099-INT, magnetic media reporting is required. This requirement shall not apply to any person for any period if such person establishes that this requirement would result in undue hardship.

Generally, a request for relief because of undue hardship should be sent to the Magnetic Media Coordinator at the service center where the returns will be filed. However, beginning January 1, 1985, requests for relief that would normally be sent to the Philadelphia, Kansas City, and Austin Service Centers should instead be sent to Magnetic Media Reporting, Internal Revenue Service, National Computer Center, P.O. Box 1359, Martinsburg, WV 25401-1359. Beginning January 1, 1986, all requests for relief should be sent to the National Computer Center address.

Brokers and barter exchanges.—Regulations section 1.6045-1(l) requires brokers and barter exchanges to use magnetic media in reporting Form 1099-B data to the IRS. Generally, new brokers and new barter exchanges may request an undue hardship exception by filing an application, by the end of the second month following the month in which they became a broker or barter exchange, with the Magnetic Media Coordinator at the service center where the returns will be filed. However, beginning January 1, 1985, request for relief that would normally be sent to Philadelphia, Kansas City, and Austin Service Centers should instead be sent to Magnetic Media Reporting, Internal Revenue Service, National Computer Center, P.O. Box 1359, Martinsburg, WV 25401-1359. Beginning January 1, 1986, all requests for relief should be sent to the National Computer Center address.

Penalty.—If you are required to file on magnetic media but fail to do so, you will be subject to a penalty for failure to file information returns of $50 per return, unless you establish reasonable cause or in some cases due diligence.

Paper Document Reporting

Payers filing returns on paper forms must use a separate transmittal, Form 1096, for each different type of form. If you have one type Form 1099 with and without TIN's, you may submit them on one Form 1096 if they are bundled separately and the number without TIN's is shown in Box 4.

Format.—All Forms 1098, 1099, 5498, and 1096 should be machine prepared and have been designed in a machine-scannable format. If you order these forms from a private printer, be sure the forms meet IRS specifications for machine-scannable format. DO NOT CUT OR SEPARATE forms that are three to a page.

In preparing your paper documents, please follow these instructions:

(1) Type or machine print data entries using **black** ribbon, insert data in the middle of blocks well separated from other printing and guidelines, and take other measures to guarantee a clear, sharp image. Align the first name line with the arrow (▶).

(2) You may use the account number box for an **account number** designation. This number must not appear anywhere else on the form, and this box may not be used for any other item. Showing the account number is optional. However, it may be to your benefit to include the recipient's account number on paper documents if your system of records uses the account number rather than the name, social security number, or employer identification number for identification purposes. If you furnish the account number, IRS will include it in future notices to you about backup withholding.

(3) Print money amounts without dollar signs ($), ampersands (&), asterisks (*), or other special characters, except do use decimal points to indicate dollars and cents.

General Instructions

A. Who Must File.—See the specific instructions for each form.

Nominee/Middleman Returns.—Anyone receiving a Form 1099 for amounts that actually belong to another person should file a Form 1099 showing the actual owner as the recipient and the nominee as the payer.

B. When to File.—File Form 1096 to transmit Forms 1098 or 1099 by February 28, 1986. Brokers may file Form 1096 and Form 1099-B anytime after the reporting period they elect to adopt (month, quarter, or year), but not later than February 28, 1986. File Form 1096 to transmit Forms 5498 by May 31, 1986. See *General Instruction H* about providing Forms 1098, 1099, and 5498 to recipients.

C. Where to File.—

If your legal residence, principal place of business, office or agency is located in ▼	Use the following Internal Revenue Service Center address ▼
Alabama, Florida, Georgia, Mississippi, South Carolina	Atlanta, GA 31101
New Jersey, New York City and counties of Nassau, Rockland, Suffolk, and Westchester	Holtsville, NY 00501
Connecticut, Maine, Massachusetts, Minnesota, New Hampshire, New York (all other counties), Rhode Island, Vermont	Andover, MA 05501
Illinois, Iowa, Missouri, Wisconsin	Kansas City, MO 64999
Delaware, District of Columbia, Maryland, Pennsylvania	Philadelphia, PA 19255
Kentucky, Michigan, Ohio, West Virginia	Cincinnati, OH 45999
Kansas, Louisiana, New Mexico, Oklahoma, Texas	Austin, TX 73301
Alaska, Arizona, California (counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo, and Yuba), Colorado, Idaho, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	Ogden, UT 84201
California (all other counties), Hawaii	Fresno, CA 93888
Arkansas, Indiana, North Carolina, Tennessee, Virginia	Memphis, TN 37501

If you have no legal residence or principal place of business in any Internal Revenue district, file with the Internal Revenue Service Center, Philadelphia, PA 19255.

If you pay nontaxable dividends to your shareholders, complete and file **Form 5452,** Corporate Report of Nontaxable Dividends, by February 28, 1986, with the Director, Corporation Tax Division, Attn: CC:C:C:1:1, Internal Revenue Service, Washington, DC 20224.

D. Reporting Period.—Forms 1098 and 1099 are used to report amounts received, paid, or credited during the calendar year. Form 5498 is used to report amounts contributed during or after the calendar year.

E. Recipient Names and Taxpayer Identification Numbers.—Taxpayer identification numbers (TIN's) are used to associate and verify amounts reported to the IRS with corresponding amounts on tax returns. Therefore, it is important that you furnish correct social security or employer identification numbers for recipients on the forms or magnetic media sent to IRS. (There is a penalty for reporting an incorrect TIN. See *Penalties* under *Highlights* on page 1.)

The TIN for individual recipients, including sole proprietors, is the social security number (000-00-0000). For other recipients, it is the employer identification number (00-0000000).

When listing a TIN, please separate the nine digits as shown above, to distinguish the type of number being reported. See Form W-9 for further information.

Show the full name and address in the section provided on the return. When payments have been made to more than one individual recipient, show as the ONLY name on the first name line opposite the arrow (▶) the name of the recipient whose TIN is on the return. Show the names of any other individual recipients in the brown shaded area below the first line.

F. Filer Names and Identification Numbers.—The TIN for filers, including sole proprietors and nominee/middlemen, is the Federal employer identification number and should be shown on the returns they prepare. However, sole proprietors and nominee/middlemen who are not otherwise required to have an employer identification number should use their social security number. The filer name and TIN should be consistent with the name and TIN used on the filer's income tax or other tax return filed. The name of the filer's paying agent or service bureau must NOT be used in lieu of the name of the filer.

G. Shipping and Mailing.—Persons who file on paper forms and who use more than one type of form should group the forms by form number and prepare separate transmittals for each group. For example, if you pay both interest and dividends, file Forms 1099-INT with one Form 1096 and Forms 1099-DIV with a second Form 1096.

If you are sending many forms, you may send them in conveniently sized packages. On each package write your name and TIN, number the packages consecutively, and place Form 1096 in package number one. At the top of Form 1096 show the number of packages. Postal regulations require forms and packages to be sent by First-Class Mail.

H. Statements to Recipients (Borrowers, Participants, or Payers on Certain Forms).—For payments of dividends or interest under sections 6042, 6044, or 6049 (reported on Forms 1099-DIV, 1099-PATR, 1099-INT, or 1099-OID), you are required to furnish an official Form 1099 to a payee either in a separate mailing by First-Class Mail or in person. These forms may not be combined or mailed with other information furnished to the recipient except Forms W-8, W-9, or other Form 1099 statements. You may use substitute Forms 1099 if they contain substantially similar language to the official forms and you comply with all revenue procedures relating to substitute Forms 1099. Copy B (For Recipient) of the substitute forms must contain the statement "This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty will be imposed on you if this income is taxable and the IRS determines that it has not been reported." The substitute form must contain the instructions on the back of Copy B of the official form.

Statements to recipients for Forms 1098, 1099-A, 1099-B, 1099-G, 1099-MISC (except in the case of substitute payments in lieu of dividends and tax-exempt interest), 1099-R, or 5498 need not be a copy of the paper form filed with the IRS. It is important that income items be properly classified for Federal tax purposes on the statement you give to recipients. The message "This information is being furnished to the Internal Revenue Service" must appear on the statements. You may combine the statements with other reports or financial or commercial notices, or expand them to include other information of interest to the recipient. Be sure that all copies of the forms are legible. Also provide the recipient with applicable instructions similar to those that appear on the back of the recipient's copy of the official IRS form so that the information may properly be used by the recipient in meeting his or her tax obligations.

For more information about paper substitutes, see **Publication 1179**, Specifications for Paper Substitutes for Forms 1096, 1098, 1099, 5498, W-2G and W-3G.

Time for furnishing forms or statements.—Generally, you must provide Forms 1098 and 1099 information by January 31 of the following year. However, you may issue them earlier in some situations, as provided by the regulations. For example, you may furnish Form 1099-INT to the recipient on redemptions of U.S. Savings Bonds at the time of redemption. Cooperatives may furnish Forms 1099-PATR with the final dividend payment regardless of the date. Brokers and barter exchanges may furnish Form 1099-B anytime but not later than January 31.

Form 5498 information must be furnished to participants by May 31 to report contributions for the prior calendar year.

I. Filing Returns with IRS.—If you must file any Form 1098, 1099 (except 1099-R), or 5498 with IRS, and you are filing paper documents, a **Form 1096**, Annual Summary and Transmittal of U.S. Information Returns, must be sent with each type of form as the transmittal document. You must group the forms by form number and submit each group with a separate Form 1096. Specific instructions for completing Form 1096 are included on the form. Also see *Paying agents*, below.

Form 1099-R, Statement for Recipients of Total Distributions from Profit-Sharing, Retirement Plans, Individual Retirement Arrangements, Etc., must be filed with IRS using **Form W-3G**, Transmittal of Certain Information Returns, for paper documents. See Form W-3G for specific instructions on its completion. Instructions for completing Form 1099-R are contained later in this document as well as in the instructions for Form W-3G. Also see *Paying agents*, below.

If you are filing using magnetic media, **Form 4804**, Transmittal of Information Returns Reported on Magnetic Media, must accompany your submissions.

For information on the preparation of transmittal documents for magnetic media and paper document reporting (Forms 4804, 1096, and W-3G), see Revenue Procedure 84-24, 1984-1 C.B. 465.

If you use paper forms, report payments on the appropriate form, as explained in the *Specific Instructions*, later. Do NOT report payments to employees, such as Christmas bonuses or reimbursements for travel or car expenses, on Forms 1099. Report these on **Form W-2,** Wage and Tax Statement.

See the revenue procedures on specifications for private printing of information documents. If proposed privately printed forms do not meet the specifications in the procedures, you may request special consideration by submitting your proposed forms to the Commissioner of Internal Revenue, Attn: D:R:R:I, 1111 Constitution Ave., N.W., Washington, DC 20224.

Paying agents.—A transmitter, service bureau, paying agent, or disbursing agent may sign Form 1096 or 4804 on behalf of the payer if all the following conditions are met:

(1) It has the authority to sign the form under an agency agreement (oral, written, or implied) that is valid under state law.

(2) It has the responsibility (oral, written, or implied) conferred on it by the payer to request the TIN's of recipients.

(3) It signs the form and adds the caption "For: (Name of payer)."

Signing of the form by an authorized agent on behalf of the payer does not relieve the payer of the liability for penalties for not filing a correct, complete, and timely Form 1096 or 4804 and attachments.

Forms 1098, 1099, 5498, or other statements to recipients issued by a service bureau or agent should show the same payer's, broker's, trustee's, or issuer's name as shown on the information return filed with IRS.

For information about the election to report and deposit backup withholding under the agent's TIN and how to prepare forms if the election is made, see Revenue Procedure 84-33, 1984-1 C.B. 502.

J. Corrected Returns.—To insure proper matching of information documents to corresponding amounts on tax returns, please pay careful attention to the following instructions:

(1) Form 1096.—If you are transmitting corrected Forms 1098, 1099, or 5498, use a separate Form 1096 and mark over the "X" in the "CORRECTED" box at the top of this form. All required data blocks must be completed on Form 1096. Also, do not include original Forms 1098, 1099, or 5498 with your corrected transmittal. If you are using Form 1096 to transmit paper forms that correct forms previously filed on magnetic media, enter the caption "Magnetic Media Correction" on the bottom of Form 1096 below the instructions. Send this submission to the service center where you would normally file paper forms.

(2) Forms 1098, 1099, and 5498.— On corrected returns, mark over the "X" in the "CORRECTED" box at the top of the form. Also, statements issued to recipients should be identified as "CORRECTED." All required data blocks must be completed since the corrected forms replace the ones previously submitted.

If a completed Form 1098, 1099, or 5498 is incorrect and you want to void it, mark over the "X" in the "VOID" box at the top of the form. DO NOT CUT the forms that are three to a page.

K. Other Information Returns.—The income information you report on the following returns must not be repeated on the returns discussed in the *Specific Instructions* in this document:

(1) Returns filed with Form W-3.
  (a) Form W-2 reporting wages and other employee compensation.
  (b) Form W-2P reporting certain annuities, pensions, retirement pay, and IRA payments.
(2) Form W-2G reporting gambling winnings, filed with Form W-3G.
(3) Forms 1042S, 1000, and 1001 reporting income.
(4) Form 2439 reporting undistributed long-term capital gains of a regulated investment company.
(5) Schedule K-1 of Form 1065 reporting distributive shares to members of a partnership.
(6) Schedule K-1 of Form 1041 reporting distributions to beneficiaries of trusts or estates.
(7) Schedule K-1 of Form 1120S reporting distributive shares to shareholders of S corporations.
(8) Schedule K of Form 1120–Interest Charge–DISC reporting actual and constructive distributions to shareholders.

L. Payments to Corporations and Partnerships.—Reporting generally is not required for payments to corporations except in the case of (1) medical payments, (2) withheld Federal income tax or foreign tax, (3) barter exchange transactions, and (4) substitute payments in lieu of dividends and tax-exempt interest. For example, reporting is not required for payments of architectural fees to corporations.

However, reporting generally is required for payments to partnerships. For example, payments of $600 or more made in the course of your trade or business to a law firm that is a partnership are reportable on Form 1099-MISC.

M. Earnings on an IRA, SEP, or DEC.—Any income with respect to an IRA, SEP, or DEC, such as interest or dividends, should not be reported on Forms 1099 unless a designated distribution is made. Distributions should be reported on Form 1099-R or Form W-2P.

Specific Instructions

If a distribution includes noncash property, show the fair market value of the property at the time of payment.

Although you generally need not report payments smaller than the minimum described for each form, you may prefer, for economy and your own convenience, to file Copies A for all payments. IRS encourages this.

Form 1098

At the time of publication of this document, instructions for Form 1098, Mortgage Interest Statement, were not available. Form 1098 and instructions will be issued later.

Form 1099-A

File Form 1099-A, Information Return for Acquisition or Abandonment of Secured Property, for each borrower if you lend money in connection with your trade or business and, in full or partial satisfaction of the debt, you acquire an interest in property that is security for the debt, or you have reason to know that the property has been abandoned. You need not be in the business of lending money to be subject to this reporting requirement.

Property means real property, such as a personal residence, or tangible personal property held for investment or used in a trade or business. No reporting is required for a loan made to an individual and secured by an interest in tangible personal property that is neither held for investment nor used in a trade or business. However, you must file Form 1099-A if the personal property is held for both personal use and either for use in a trade or business or for investment.

If there are multiple owners of undivided interests in a single loan, such as is the case in pools, fixed investment trusts, or other similar arrangements, the trustee, record owner, or person acting in a similar capacity must file Form 1099-A on behalf of all the owners of beneficial interests or participations. In this case, only one form for each borrower must be filed on behalf of all owners with respect to the loan. Similarly, in the case of bond issues, only the trustee or similar person is required to report.

A governmental unit, or any of its agencies or instrumentalities, that lends money secured by property must file Form 1099-A.

A subsequent holder of a loan is treated as the lender for purposes of the reporting requirement for events occurring after the loan is transferred to the new holder.

If more than one person lends money secured by property and one lender forecloses or otherwise acquires an interest in the property and the sale or other acquisition terminates, reduces or otherwise impairs the other lenders' security interests in the property, the other lenders must file Form 1099-A with respect to each of their loans. For example, if a first trust holder forecloses on a building, and the second trust holder knows or has reason to know of such foreclosure, the second trust holder must file Form 1099-A with respect to the second trust even though no part of the second trust was satisfied by the proceeds of the foreclosure sale.

No reporting is required if the property securing the loan is located outside the U.S. and the borrower has furnished the lender a statement, under penalties of perjury, that the borrower is an exempt foreign person (unless the lender knows that the statement is false).

An abandonment occurs when the objective facts and circumstances indicate that the borrower intended to and has permanently discarded the property from use. A lender "has reason to know" of an abandonment based on all the facts and circumstances concerning the status of the property. A lender will be deemed to know all the information that would have been discovered through a reasonable inquiry when, in the ordinary course of business, the lender becomes aware or should become aware of circumstances indicating that the property has been abandoned. If you expect to commence within 3 months a foreclosure, execution, or similar sale of the abandoned property, reporting is required as of the date you acquire an interest in the property or a third party purchases the property at such sale. If then such sale does not occur within 3 months, the reporting requirement arises at the end of the 3-month period.

For information about the requirement of furnishing a statement to the borrower, see part *H* under *General Instructions*.

Report in:

Box 1.—The date of your acquisition of the secured property or the date you first knew or had reason to know that the property was abandoned. An interest in the property is generally acquired on the earlier of the date title is transferred to the lender or the date possession and the burdens and benefits of ownership are transferred to the lender. If an objection period is provided by law, use the date the objection period expires. If you purchase the property at a sale held to satisfy the debt, such as at a foreclosure or execution sale, use the later of the date of sale or the date the borrower's right of redemption expires. Please use the following format to indicate the date: 00/00/00.

For an abandonment, enter the date you knew or had reason to know that the property was abandoned unless you expect to acquire an interest in the property within 3 months, as explained earlier. If a third party purchases the property at a foreclosure, execution, or similar sale, the property is treated as abandoned, and you have reason to know of its abandonment on the date of sale.

Box 2.—The amount of the debt outstanding at the time the interest in the property is acquired or on the date you first knew or had reason to know that the property was abandoned.

Box 3.—For acquisitions by the lender only, the amount of the debt satisfied by the acquisition.

Box 4.—If the borrower is personally liable for the debt, the fair market value of the property at the time of acquisition or abandonment. In the case of a foreclosure, execution, or similar sale, the proceeds of sale will be considered the fair market value of the property in the absence of clear and convincing evidence to the contrary.

Box 5.—Whether the borrower is personally liable for repayment of the debt. Check the applicable box.

Box 6.—A general description of the property. For real property, generally you must enter the address of the property, or, if the address does not sufficiently identify the property, enter the section, lot, and block. For personal property, enter the applicable type, make, and model. For example, describe a car as "Car—1985 Buick Regal." Use a category such as "Office Equipment" to describe more than one piece of personal property, such as six desks and seven typewriters.

Form 1099-B

Any person, including a governmental unit and any agency or instrumentality thereof, doing business as a broker or barter exchange must file Form 1099-B, Statement for Recipients of Proceeds from Broker and Barter Exchange Transactions, for each person (a) for whom the broker has sold (including short sales) stocks, bonds, commodities, regulated futures contracts, forward contracts, debt instruments, etc., or (b) who exchanged property or services through the barter exchange.

The term "broker" means a person that, in the ordinary course of a trade or business, stands ready to effect sales to be made by others. For a sale of securities through a "cash on delivery" or similar account, only the broker that receives the gross proceeds from the sale against delivery of the securities sold is required to report the sale. However, if such broker's customer is a "second-party broker" that is an exempt recipient, only the second-party broker is required to report the sale.

If the proceeds of a sale are paid in convertible foreign currency, the amount to be reported must be converted into U.S. dollars. You may use the exchange rate on the sales date or the exchange rate on the last business day of the reporting period in which the sale occurs.

Brokers must report each transaction (other than regulated futures contracts) on a separate Form 1099-B. Transactions involving regulated futures contracts are to be reported on an aggregate basis.

The term "barter exchange" means any person with members or clients that contract either with each other or with such person to trade or barter property or services either directly or through such person. The term does not include arrangements that provide solely for the informal exchange of similar services on a noncommercial basis. Persons that are not a barter exchange but who trade services do not file Form 1099-B. However, they may be required to file Form 1099-MISC.

Barter exchanges must report each transaction involving noncorporate members or clients of a barter exchange on a separate Form 1099-B. Transactions involving corporate members or clients of a barter exchange may be reported on an aggregate basis.

No return is required by brokers for:

(1) Sales by exempt recipients. (Common examples include corporations, charitable organizations, individual retirement plans, the United States, a state and political subdivisions.)

(2) Sales initiated by dealers in securities and financial institutions.

(3) Sales by certain custodians and trustees.

(4) Sales at issue price of interests in certain regulated investment companies.

(5) Obligor payments on:

   (a) Nontransferable obligations, such as savings bonds.

   (b) Obligations for which gross proceeds are reported on other Forms 1099, such as stripped coupons issued prior to July 1, 1982.

   (c) Retirement of short-term obligations with original issue discount (reported on Form 1099-INT).

   (d) Callable demand obligations that have no premium or discount.

(6) Sales of foreign currency unless under a forward or regulated futures contract that requires delivery of foreign currency.

(7) Sales of fractional shares of stock if gross proceeds are less than $20.

(8) Retirements of book-entry or registered form obligations if no interim transfers have occurred.

(9) Exempt foreign persons.

No return is required by barter exchanges for:

(1) Exchanges through a barter exchange with less than 100 transactions during the calendar year.

(2) Exempt foreign persons.

Report in:

Box 1(a).—The date of the sale or exchange. Enter the trade date or the settlement date. If you use the settlement date, enter a capital "S" before the date. Please use the following format to indicate the date: 00/00/00. For aggregate reporting, no entry is required.

Box 1(b).—For transactional reporting by brokers, the CUSIP (Committee on Uniform Security Identification Procedures) number of the obligation.

Box 2.—The gross proceeds from any disposition of securities (including short sales), commodities, or forward contracts. To determine gross proceeds, you may take into account commissions and option premiums if this treatment is consistent with your books. Check the applicable box to indicate which amount has been reported to IRS. Do not include amounts shown in Boxes 6 through 9. Any accrued interest on bonds sold between payment dates should not be included in this box. Instead, report this accrued interest on Form 1099-INT. A loss from a closing transaction on a forward contract must be shown as a negative amount by enclosing it in parentheses.

Box 3.—Gross amounts received by a member or client of a barter exchange for goods or services. This includes cash received, property or services received, a credit on your books, or scrip issued.

Box 4.—Amounts for backup withholding. For example, persons who have not furnished their taxpayer identification number to you in the manner required are subject to withholding at a 20% rate on certain amounts required to be reported on this form.

Box 5.—A brief description of the disposition item, *e.g.*, 100 shares of XZY Corp. stock, etc. If necessary, abbreviate the description so that it fits within Box 5. For regulated futures contracts and forward contracts, enter "RFC" or other appropriate description and the **amount subject to backup withholding**, if any, under A-23 of section 35a.9999-3 of the Temporary Employment Tax Regulations. **Note:** *The amount withheld in these situations is to be included in Box 4.*

For bartering transactions, show the service or product transaction as recorded in your books or records that gave rise to the barter credit or scrip.

Box 6.—The profit or (loss) realized by the customer on closed regulated futures or foreign currency contracts in 1985. For more information on reporting foreign currency contracts, see A-26 of section 35a.9999-3 of the Temporary Employment Tax Regulations.

Box 7.—The unrealized profit or (loss) on open regulated futures or foreign currency contracts at the end of 1984.

Box 8.—The unrealized profit or (loss) on open regulated futures or foreign currency contracts as of December 31, 1985.

Box 9.—The aggregate profit or (loss) for the year from regulated futures or foreign currency contracts. Use Boxes 6, 7, and 8 to figure the aggregate profit or (loss).

Form 1099-DIV

File Form 1099-DIV, Statement for Recipients of Dividends and Distributions, for each person (a) to whom you have paid gross dividends and other distributions on stock (Box 1) of $10 or more, (b) for whom you have withheld and paid any foreign tax on dividends and other distributions on stock, if the recipient can claim credit for the tax on his or her income tax return, or (c) for whom you have withheld any Federal income tax under the backup withholding rules.

Give a copy of the official form, or a substitute form containing substantially similar language, to each recipient. See regulations under section 6042 for a definition of dividends.

Note: *Certain distributions commonly referred to as "dividends" are actually interest and are to be reported on Form 1099-INT. These include so-called "dividends" on deposit or on share accounts in cooperative banks, credit unions, domestic building and loan associations, domestic and Federal savings and loan associations, and mutual savings banks.*

An exempt-interest dividend from a regulated investment company retains its tax-exempt status and is not reported on Form 1099-DIV or 1099-INT.

Report in:

Box 1.—Gross dividends, including those from money market funds, and other distributions on stock. The total of amounts in Boxes 2, 3, 5, and 6 should equal this amount. Do not include in Box 1 amounts reported in Boxes 9 or 10.

Box 2.—Dividends qualifying for the dividend exclusion on Forms 1040 or 1040A.

Box 3.—Dividends not qualifying for the dividend exclusion. (Do not include amounts shown in Boxes 5 and 6.)

Box 4.—Amounts for backup withholding. For example, persons who have not furnished their taxpayer identification number to you in the manner required are subject to withholding at a 20% rate on certain dividend payments reported on this form.

Box 5.—Capital gain distributions.

Box 6.—Nontaxable distributions, if determinable. (File Form 5452 for dividends paid from other than earnings and profits.)

Box 7.—Foreign tax withheld and paid on dividends and other distributions on stock. Report this amount in U.S. dollars.

Box 8.—The name of the foreign country or U.S. possession to which the withheld tax applies.

Note: *Boxes 9 and 10 apply only to corporations in partial or complete liquidation.*

Box 9.—Cash distributed as part of a liquidation. Do not include this amount in Box 1.

Box 10.—Noncash distributions made as part of a liquidation. Show the fair market value as of the date of distribution. Do not include this amount in Box 1.

Dividends on Restricted Stock.—Property transferred to an employee in connection with the performance of services is not taxable until it has become substantially vested. Until such property becomes substantially vested, the transferor is regarded as the owner and any income from the property received by the employee constitutes additional compensation and is includible in the employee's gross income. In addition, the employee should be provided a **Form W-2**, Wage and Tax Statement, showing the amount of the additional compensation and any tax withheld. (See Rev. Proc. 80-11, 1980-1 C.B. 616.)

However, property transferred to an employee in connection with the performance of services is treated as substantially vested if the employee elects to include in gross income, for the year the property is received, the excess (if any) of its fair market value (determined without regard to any restrictions other than one that will never lapse) over the amount (if any) paid for the property, as compensation for services. If this election is made, the employee is regarded as the owner of restricted stock and any dividends paid are not additional compensation to the employee but retain their character as dividends. In this case, a Form 1099-DIV should be issued to the employee showing the amount of the dividends. (See Rev. Proc. 83-38, 1983-1 C.B. 773 and Rev. Rul. 83-22, 1983-1 C. B. 17.)

S Corporations.—

Box 1.—Report as dividends on Form 1099-DIV only distributions made during 1985 out of accumulated earnings and profits. (See section 1368 for more information.)

Form 1099-G

File Form 1099-G, Statement for Recipients of Certain Government Payments, if you have made payments as a unit of a Federal, state, or local government. Furnish a copy of Form 1099-G or a statement to each recipient, except as explained in Box 2.

Report in:

Box 1.—Payments of $10 or more in unemployment compensation including Railroad Retirement Board payments for unemployment.

Box 2.—Refunds, credits, or offsets of state or local income tax of $10 or more you made to recipients. If recipients deducted the tax paid to a state or local government on their Federal income tax returns, any refunds, credits, etc., may be taxable to them. If you can determine that the recipient did not claim itemized deductions on the recipient's Federal income tax return for the tax year giving rise to the refund, credit, or offset, you are not required to furnish a copy of Form 1099-G or a statement to the recipient. However, you must file Form 1099-G with IRS in all cases.

Refunds, credits, or offsets attributable to an income tax that applies exclusively to income from a trade or business and is not a tax of a general application should be identified by a capital "X" after the amount.

Box 3.—No entry is required in Box 3 if the refund, credit, etc., is for the 1984 tax year. If it is for any other tax year, enter the year of the refund, credit, etc., in this box. Also, if the refunds, credits, etc., are for more than one tax year, report the amount for each year on a separate Form 1099-G.

Box 4.—Amounts for backup withholding. For example, persons who have not furnished their taxpayer identification number to you become subject to withholding at a 20% rate on payments required to be reported in Boxes 6 or 7 on this form.

Box 5.—Any amount in excess of $600 that was owed to the Federal Government and that has been declared uncollectible as a result of a defaulted obligation, not in dispute, and either

(1) Federal statute expiration for collection of the debt, or

(2) a formal compromise agreement.

If an amount less than the amount owed is accepted as payment in full, enter the difference between the amount of the debt and the settlement amount in Box 5. The discharge or forgiveness of indebtedness is taxable income to the person originally liable for that amount.

Do not include any obligation discharged in a Title 11 bankruptcy case, for a debtor known to be insolvent or for a qualified business indebtedness.

Box 6.—Any amount of a taxable grant administered by a Federal, state, or local program to provide subsidized energy financing or grants for projects designed to conserve or produce energy. Also report amounts of other taxable grants of $600 or more. A Federal grant is ordinarily taxable unless stated otherwise in the legislation authorizing the grant.

Box 7.—U.S.D.A. agricultural subsidy payments made to recipients during the year. Since the Department of Agriculture reports these payments on magnetic media, this box will ordinarily be used by persons receiving subsidy payments as nominees for another person. Nominees file Form 1099-G to report the actual owner of the payments.

Form 1099-INT

File Form 1099-INT, Statement for Recipients of Interest Income, for each person (1) to whom you paid amounts reportable in Box 1 of at least $10 (except for the $600 limit described in the instructions below in Box 1), (2) for whom you withheld and paid foreign tax on interest if the recipient can claim credit for the tax on his or her income tax return, or (3) for each person from whom you withheld any Federal income tax under the backup withholding rules regardless of the amount of the payment.

Give a copy of the official form, or a substitute form containing substantially similar language, to each recipient. If you have furnished Forms 1099-INT to a recipient for amounts received during the year on a transactional basis, for example, window transactions, do not include these same amounts in a 1099-INT furnished to the same recipient for other payments during the year.

Only report interest payments made in the course of your trade or business (including Federal, state, and local government agencies and activities deemed nonprofit), or for which you were a nominee/middleman, or from which you withheld Federal income tax or foreign tax.

Note: *Do not report tax-exempt or tax-deferred interest, such as interest on municipal bonds or interest that is earned but not distributed from an individual retirement arrangement (IRA).*

An exempt-interest dividend from a regulated investment company retains its tax-exempt status and is not reported on Form 1099-DIV or 1099-INT.

Report in:

Box 1.—Amounts, whether or not designated as interest, that are paid or credited to any person's account by savings and loan associations, mutual savings banks not having capital stock represented by shares, building and loan associations, cooperative banks, homestead associations, credit unions, or similar organizations. Include interest on bank deposits, accumulated dividends or delayed death benefits paid by a life insurance company, indebtedness (including bonds, debentures, notes and certificates other than those of the U.S. Treasury) issued in registered form or of a type offered to the public, or from which you withheld Federal income tax or foreign tax. Also include payments of interest made in the course of your trade or business not meeting these criteria if they total $600 or more for any person.

Also show original issue discount on short-term obligations of one year or less and interest on all bearer certificates of deposit.

Do not include in Box 1 interest on tax-free covenant bonds, which is reportable on Form 1042S or dividends from money market funds, which is reportable on Form 1099-DIV. Also, do not include any description in Box 1. If you wish to show a description, use the blank box above Box 1.

Box 2.—Amounts of interest or principal forfeited due to premature withdrawal of time deposits and deductible by the recipient from gross income. The amount in Box 1 should not be reduced by the forfeiture. For detailed instructions for determining the amount of forfeiture deductible by the depositor, see Rev. Ruls. 75-20, 1975-1 C.B. 29 and 75-21, 1975-1 C.B. 367.

Box 3.—Amounts of interest on U.S. Savings Bonds, Treasury bills, Treasury notes, and Treasury bonds. Do not include this amount in Box 1.

Box 4.—Amounts for backup withholding. For example, persons who have not furnished their taxpayer identification number to you in the manner required become subject to withholding at a 20% rate on payments required to be reported in Box 1 (which may be reduced by the amount reported in Box 2) on this form.

Box 5.—Foreign tax withheld and paid on interest. Report this amount in U.S. dollars.

Box 6.—The name of the foreign country or U.S. possession to which the withheld tax applies.

Form 1099-MISC

File Form 1099-MISC, Statement for Recipients of Miscellaneous Income, for each person, other than corporations (Boxes 6 and 8 must be reported to corporations), to whom you have paid at least $600 (unless a different amount is indicated below) in rents, royalties, and other payments reportable on the form, or from whom you have withheld any Federal income tax under the backup withholding rules regardless of the amount of the payment. Give a copy to each recipient. Report only payments made in the course of your trade or business (including Federal, state, or local government agencies and activities deemed nonprofit), for which you were a nominee/middleman, or from which you withheld Federal income tax or foreign tax. If you are a broker, you must also report payments received as described in Box 8.

Report in:

Box 1.—Amounts paid to recipients for all types of rents, such as real estate rentals paid for office space, machine rentals (for example, hiring a bulldozer to level your parking lot), and pasture rentals (for example, farmers paying for the use of grazing land). If the machine rental is a part of a contract that includes both the use of the machine and the operator, the rental should be prorated between the rent of the machine (reported in Box 1) and the operator's charge (reported as nonemployee compensation in Box 7).

Box 2.—Gross royalty payments before reduction for severance and other taxes which may have been withheld and paid. Include in this box royalties paid by a publisher directly to an author or literary agent or paid by a literary agent to an author. Do not include surface royalties. They should be reported in Box 1.

Box 3.—Prizes and awards that are not for services rendered. Prizes or awards for services rendered by employees should be reported on Form W-2. Prizes and awards for services rendered by nonemployees, such as an award for the top commission salesperson, are reported in Box 7. Include the fair market value of merchandise won on game shows.

Box 4.—Amounts for backup withholding. For example, persons who have not furnished their taxpayer identification number to you become subject to withholding at a 20% rate on payments required to be reported in Boxes 1, 2 (net of severance taxes), 3, 5 (to the extent paid in cash), 6, 7, and 8 on this form.

Box 5.—The share of all proceeds from the sale of a catch or the fair market value of a distribution in-kind to each crewmember of fishing boats with normally fewer than 10 crewmembers.

Box 6.—Payments by medical and health care insurers to each physician or other supplier or provider of services under health, accident, and sickness insurance programs. In the case of a corporation, list the corporation as the recipient rather than the individual providing the services. (See Rev. Ruls. 69-595, 1969-2 C.B. 242, and 70-608, 1970-2 C.B. 286.)

The exemption for issuing Form 1099-MISC to a corporation does not apply to corporations, including professional corporations, that provide medical or health care services.

Box 7.—Nonemployee compensation. Include fees, commissions, prizes, awards, or other forms of compensation for services rendered for your trade or business by an individual who is not your employee. Also include expenses incurred for the use of an entertainment facility that you treat as compensation to a nonemployee.

Examples of payments to be reported in Box 7 are:

(1) Attorney's and accountant's fees for professional services.

(2) Fees paid by one professional to another, such as fee-splitting or referral fees.

(3) Payments by attorneys to witnesses or experts in legal adjudication.

(4) Insurance company payments to an auto repair shop under a repair contract indicating an amount for labor and another amount for parts.

(5) Commissions paid to nonemployee salespersons, subject to repayment but not repaid during the calendar year.

(6) A fee paid to a nonemployee and travel reimbursement for which the nonemployee did not account to the payer, if the fee and reimbursement aggregate at least $600.

(7) Payments to nonemployee entertainers for services.

Note: *In order to qualify for relief under section 530 of the Revenue Act of 1978 as extended by Pub. L. 97-248, employers may file Form 1099-MISC. Additional requirements for relief are discussed in* ***Publication 15****, Employer's Tax Guide, under "Who Are Employees?"*

Golden parachute payments.— In the brown shaded area in Box 7, report any excess golden parachute payments paid to a nonemployee. Enter the letters "EPP" next to this amount. In the white space in Box 7, enter the total compensation, including any golden parachute payments. Your entry should be in the following format:

300,000EPP
400,000

Box 8.—Aggregate payments of at least $10 received by a broker on behalf of a customer in lieu of dividends or tax-exempt interest as a result of the transfer of a customer's securities for use in a short sale. Form 1099-MISC must be filed with IRS and furnished to the customer on whose behalf you received the payment. However, for substitute payments in lieu of dividends, do not file Form 1099-MISC nor furnish it to your customer if your customer is an **individual** unless you have reason to know that a substitute dividend payment is in lieu of: (1) an exempt-interest dividend, (2) a capital gain dividend, (3) a return of capital, or (4) a dividend subject to a foreign tax credit. Form 1099-MISC is required to be filed for and furnished to an individual on whose behalf you received a payment in lieu of tax-exempt interest. If you are not required to make a report on Form 1099-MISC for substitute dividends of at least $10, you must report the substitute dividends on Form 1099-DIV.

Substitute payment means a payment in lieu of: (1) tax-exempt interest to the extent that interest (including OID) has accrued while the short sale was open, and (2) a dividend, if the ex-dividend date is after that transfer of stock for use in a short sale and before the closing of the short sale.

Box 9.—Sales by you of $5,000 or more of consumer products to a person on a buy-sell, deposit-commission, or other basis for resale by simply checking the box in Box 9. No dollar amount is needed.

The report required to be given to the recipient for these direct sales need not be made on the official form. It may be in the form of a letter showing this information along with commissions, prizes, awards, etc.

Form 1099-OID

File Form 1099-OID, Statement for Recipients of Original Issue Discount, if the original issue discount (OID) includible in gross income is at least $10 and you are any of the following: (1) an issuer with any bond outstanding or other evidence of indebtedness in registered or bearer form issued with OID; (2) an issuer of certificates of deposit made, purchased, or renewed after December 31, 1970, if the term of the obligation or deposit is more than one year; (3) a financial institution having other deposit arrangements, such as time deposits or bonus-savings plans having a term in excess of one year provided the payment of interest is deferred until maturity; or (4) a broker or other middleman holding an OID obligation as nominee for the actual owner.

Issuers that do not use actual dates of ownership by holders in computing the discount are permitted to prepare a Form 1099-OID only for each person who is a holder of record of the obligations on the semiannual record date, if any, used by the corporation or its agent for the payment of stated interest, or if there is no such date, on June 30, and December 31. On each Form 1099-OID, you should treat each holder as holding the obligation on every day it was outstanding during the calendar year. However, for time deposits and face-amount certificates use the actual date of deposit to compute OID.

Also, file Form 1099-OID in any case in which you are required to deduct and withhold taxes even if the amount of the OID is less than $10. Original issue discount on obligations with a term of one year or less should be reported on Form 1099-INT.

Give a copy of the official form, or a substitute form containing substantially similar language, to each recipient.

"Original issue discount" means the difference between the stated redemption price at maturity and the issue price. A discount of less than one-fourth of 1% of the stated redemption price at maturity, multiplied by the number of full years from the date of issue to maturity, is considered to be zero.

Ordinarily, you will file only one Form 1099-OID for the depositor or holder of a particular obligation for the calendar year. If a person holds more than one discount obligation, issue separate Forms 1099-OID for each obligation. However, if a person holds more than one certificate of the same issue for the same period of time during the calendar year, and if Form 1099-OID amounts are proportional, you may treat all such certificates as one discount obligation and file a single Form 1099-OID.

For time deposits and face-amount certificates, use the actual date of deposit and compute OID on a straight line, monthly prorated basis for obligations issued before July 2, 1982, and on a daily economic accrual basis for obligations issued after July 1, 1982.

Publication 1212, List of Original Issue Discount Obligations, contains information on outstanding publicly traded discount obligations.

The issuer of publicly offered debt instruments having OID must file **Form 8281,** Information Return for Publicly Offered Original Issue Discount Instruments, within 30 days of the date of issuance. The information provided on that form will enable IRS to update Publication 1212. See Form 8281 for details.

Report in:

Box 1.—The total OID for the calendar year that is reportable on the obligation.

Box 2.—The regular interest paid or credited on this obligation during this year. This is the stated periodic interest paid without regard to any OID. If OID is the only interest on this obligation, leave this box blank. Interest reported here must not be reported on Form 1099-INT.

Box 3.—Any interest forfeited by the holder of the obligation because of an early withdrawal. Amounts in Boxes 1 and 2 should not be reduced by the forfeiture. It must be reported as interest paid or credited and ALSO as interest forfeited. For detailed instructions for determining the amount of forfeiture deductible by the holder, see Rev. Ruls. 75-20, 1975-1 C.B. 29 and 75-21, 1975-1 C.B. 367.

Box 4.—Amounts for backup withholding. For example, persons who have not furnished their taxpayer identification number to you in the manner required become subject to withholding at a 20% rate on amounts required to be reported in Boxes 1 and 2 (which may be reduced by the amount reported in Box 3) limited to the cash paid on these obligations.

Box 5.—The CUSIP number, if any; if there is no CUSIP number the abbreviation for the stock exchange, the abbreviation for the issuer used by the stock exchange, the coupon rate, and the year of maturity (*e.g.*, NYSE XZY 12½ 87).

Form 1099-PATR

File Form 1099-PATR, Statement for Recipients (Patrons) of Taxable Distributions Received From Cooperatives, for each person to whom the cooperative has paid at least $10 in patronage dividends and other distributions described in section 6044(b), or from whom you withheld any Federal income tax under the backup withholding rules regardless of the amount of the payment. A cooperative determined to be primarily engaged in the retail sale of goods or services that are generally for personal, living, or family use of the members, may ask for and receive exemption from certain IRS reporting requirements. See Regulations section 1.6044-4(b) for information about how to apply for this exemption.

Give a copy of the official form, or a substitute form containing substantially similar language, to each recipient.

Report dividends paid on cooperatives' capital stock on Form 1099-DIV.

Report in:

Box 1.—The total patronage dividends paid in cash (qualified or "consent" checks), qualified written notices of allocation (face amount), and other property.

Box 2.—The total nonpatronage distributions paid in cash (qualified or "consent" checks), qualified written notices of allocation (face amount), and other property. This box is applicable only to farmers' cooperatives exempt from tax under section 521.

Box 3.—The total per-unit retain allocations paid in cash, qualified per-unit retain certificates (face amount), and other property.

Box 4.—Amounts for backup withholding. For example, persons who have not furnished their taxpayer identification number to you in the manner required become subject to withholding at a 20% rate on payments required to be reported in Boxes 1, 2, 3, and 5 to the extent such payments are in cash or qualified check. See A-10 of section 35a.9999-3 of the Temporary Employment Tax Regulations for more information on backup withholding by cooperatives.

Box 5.—All redemptions of nonqualified written notices of allocation issued as patronage dividends, nonqualified written notices of allocation issued as nonpatronage allocations (applicable only to farmers' cooperatives qualifying under section 521), and nonqualified per-unit retain certificates, issued with respect to marketing.

Pass-Through Credits.—Report in the appropriate boxes the patron's share of unused credits that the cooperative is passing through to this patron:

Box 6.—Investment credit.

Box 7.—Energy investment credit.

Box 8.—Jobs credit.

Form 1099-R

File a Form 1099-R, Statement for Recipients of Total Distributions from Profit-Sharing, Retirement Plans, Individual Retirement Arrangements, Etc., for each person to whom you have made any designated distribution (as defined in section 3405) that is a total distribution from profit-sharing or retirement plans, whether or not you withheld Federal income tax. This rule applies even if the designated distribution is less than $600. All total distributions from an individual retirement arrangement (IRA), simplified employee pension (SEP), or an employer plan that accepts qualified deductible voluntary employee contributions (DEC's) must be reported in Box 8 regardless of the amount. Give a copy or statement to the recipient.

Transmit Form 1099-R to IRS using Form W-3G, Transmittal of Certain Information Returns. Do not use Form 1096.

Do not report direct transfers between trustees (or issuers) that involve no payment or distribution of funds to the participant, except exchanges of insurance contracts (including a tax-free exchange under section 1035) under which any designated distribution may be made.

A total distribution is one in which the entire balance of the account is distributed. Payments that are not total distributions should be reported on **Form W-2P**, Statement for Recipients of Annuities, Pensions, Retired Pay, or IRA Payments.

Report on Form 1099-R total payments of matured or redeemed annuity, endowment, and life insurance contracts. For loans treated as distributions, see section 72(p). Do not report payments subject to social security (FICA) tax withholding on this form.

For payments to beneficiaries, prepare Form 1099-R using the name and taxpayer identification number of the beneficiary, not those of the decedent.

The plan administrator must, when making a qualified total distribution, provide a written explanation to the recipient of the rollover provisions of the law, and, if applicable, of the capital gain and 10-year averaging provisions. See section 402(f).

Report in:

Box 1.—The amount includible as income. Enter the total of amounts in Boxes 2 and 3. But do not include excludable or tax-deferred amounts reportable in Boxes 5, 6, or 9. Also, include premiums paid by a trustee or custodian for current life or other insurance protection. See Regulations section 1.72-16(b), Revenue Rulings 55-747, 1955-2 C.B. 228, and 66-110, 1966-1 C.B. 12, for information on the cost of premiums paid by an employee's trust under a qualified plan for current life insurance protection taxable to plan participants or their beneficiaries.

Do not include IRA distributions in this box. Report them in Box 8.

Box 2.—Capital gain (for lump-sum distributions only). See example below.

Box 3.—Ordinary income. See example below.

To compute the months of an employee's active participation before 1974, count as 12 months any part of a calendar year in which an employee actively participated under the plan; for active participation after 1973, count as one month any part of a month in which the employee actively participated under the plan.

Active participation begins with the first month in which an employee became a participant under the plan and ends with the earliest of:

(a) The month in which the employee received a lump-sum distribution under the plan;

(b) In the case of an employee, other than a self-employed person or owner-employee, the month in which the employee separates from service;

(c) The month in which the employee dies; or

(d) For a self-employed person or owner-employee, the first month in which the employee becomes disabled (within the meaning of section 72(m)(7)).

For survivor-beneficiaries of deceased employees, the entries in Boxes 2 and 3 should be without regard to the survivor's death benefit exclusion under section 101(b). However, check the box below Box 9 if the death benefit exclusion applies.

Box 4.— Federal income tax withheld. See **Publication 493,** Alternative Tax Withholding Methods and Tables, for the special tables for qualified total distributions. If a payee fails to furnish his or her correct taxpayer identification number (TIN) to you in the manner required, or if IRS notifies you before any distribution that the TIN furnished is incorrect, you must withhold at a rate of 10% for nonperiodic distributions that are not qualified total distributions. For qualified total distributions, see Publication 493. Backup withholding does not apply.

Example

Step I: Total Taxable Amounts

Total Distribution		XXXXX
Less: 1. Current actuarial value of any annuity	XXXXX	
2. Employee contributions (minus any amounts previously distributed that were not includible in the employee's gross income)	XXXXX	
3. Net unrealized appreciation in the value of any employer securities that were a part of the lump-sum distribution	XXXXX	XXXXX
Total Taxable Amount		XXXXX

Step II: Capital Gain

$$\text{Total Taxable Amount (from Step I)} \times \frac{\text{Months of Active Participation Before 1974}}{\text{Total Months of Active Participation}} = \text{Capital Gain}$$

Step III: Ordinary Income

$$\text{Total Taxable Amount (from Step I)} \times \frac{\text{Months of Active Participation After 1973}}{\text{Total Months of Active Participation}} = \text{Ordinary Income}$$

Box 5.—Employees' contributions to a profit-sharing or retirement plan. Enter the amount (a) actually contributed by the employee over the years under the retirement or profit-sharing plans, plus (b) any employer-contributed amounts considered to have been contributed by the employee under section 72(f), (c) the accumulated cost of premiums paid for life insurance protection, taxable to the employee in previous years and in the current year under Regulations section 1.72-16, and (d) premiums paid on commercial annuities. Do not include contributions to IRA's, SEP's, or DEC's in this box.

Box 6.—Net unrealized appreciation in employer's securities. See Regulations section 1.402(a)-1(b) for determination of the net unrealized appreciation. Use this box if a distribution includes securities of the employer corporation (or a subsidiary or parent corporation) and you can compute the net unrealized appreciation in the employer's securities.

Box 7.—The appropriate code number, from the list below, that shows the type of distribution being made. No code is needed for normal distributions you report in Box 1. Code 9, for transfers to an IRA for a spouse due to a divorce, has been deleted. If the transfer to the spouse is from trustee to trustee, do not report the transfer. The codes are as follows: 1—Premature distribution (other than codes 2, 3, 4, or 5); 2—Rollovers; 3— Disability; 4—Death (includes payments to a beneficiary); 5— Prohibited transactions; 6—Other; 7—Normal IRA, SEP, or DEC distributions; 8—Excess contributions refunded plus earnings on such excess contributions.

Box 8.—The amount distributed from an IRA, SEP, or DEC. The amount shown in this box may be includible in the recipient's current income, depending on the type of distribution. In the case of a distribution by a trust representing CD's redeemed early, report the net amount distributed. Do not include any amounts paid for IRA insurance protection in the total for Box 8.

Box 9.—Other. This space is for payers whose distribution includes items not covered by the above and who want to provide that information to employees or beneficiaries (for example, the current actuarial value of an annuity contract that is a part of a lump-sum distribution or the value of U.S. retirement bonds that you may distribute to employees or beneficiaries). Be sure to identify any amounts shown in this box by including a code in Box 7.

To determine the value of an annuity contract (reportable in Box 9), show the value as an amount equal to the current actuarial value of the annuity contract, reduced by an amount equal to the excess of the employee's contributions over the cash and other property (not including the annuity contract) distributed.

If an annuity contract is part of a multiple recipient lump-sum distribution, enter in Box 9, along with the current actuarial value, the percentage of the total annuity contract each Form 1099-R represents.

For a section 1035 exchange, show the total value of the contract, including premiums paid, in Box 9; show the total premiums paid in Box 5; and enter code 2 in Box 7.

Report here any death benefit payments not made as part of a pension, profit-sharing, or retirement plan. Do not show amounts reportable in Box 1. Enter code 4 in Box 7.

Nontaxable Distributions.—Report nontaxable distributions in Box 9 and show a code in Box 7 to identify them.

Box 10.—You may use this box to report any state income tax withheld. The use of this box is optional. You may want to use this box if you use Form 1099-R as the recipient's statement.

Form 5498

File Form 5498, Individual Retirement Arrangement Information, with the IRS on or before May 31, 1986, for each person from whom you received contributions in 1985 and through April 15, 1986, for 1985, to an individual retirement arrangement (IRA), simplified employee pension (SEP), or to a plan maintained by an employer that accepts qualified deductible voluntary employee contributions (DEC's).

For contributions made between January 1 and April 15, 1986, trustees and issuers should obtain the participant's designation of the year for which the contributions are made.

For reporting purposes, contributions and rollovers do not include direct transfers between trustees (or issuers) that involve no payment or distribution of funds to the participant.

Trustees or issuers of IRA's and SEP's must provide participants with an annual statement containing the same information required by Form 5498 plus the value of the participant's account at the end of the calendar year.

Furnish the statement to the participant on or before May 31 of the following year. You are not required to furnish a Form 5498 to the participant. However, you may use Form 5498 as the statement to participants. Several blank boxes are provided on Form 5498 for this purpose. If you do not use Form 5498 as the annual statement, the statement that you do use must bear the legend, "This information is being furnished to the Internal Revenue Service."

For DEC's, an employer must furnish a statement of the total qualified deductible voluntary employee contributions made for 1985. Furnish the statement to the employee by the later of January 31, 1986, or the time the contribution is made. Form 5498 may be used for this purpose.

Distributions from IRA's, SEP's, and DEC's will continue to be reported on Form 1099-R or W-2P. For a distribution of excess contributions plus interest thereon, report the distribution on a Form W-2P or 1099-R for the year in which the excess contribution was made by the participant.

Report in:

Box 1.—Regular contributions to an IRA, SEP, or DEC made in 1985 designated for 1984.

Box 2.—Regular contributions to an IRA, SEP, or DEC made in 1985 and through April 15, 1986, designated for 1985. Report gross contributions, including the amount allocable to the cost of life insurance (see Box 4) and including any excess contributions, even if the excess contributions were withdrawn.

Box 3.—Rollover contributions made to an IRA, SEP, or DEC received by you during 1985.

Box 4.—For endowment contracts only, the amount included in Box 2 allocable to the cost of life insurance.

Guide to Information Returns

FORM NUMBER	TITLE	WHAT TO REPORT	AMOUNTS TO REPORT	DUE DATE	
				TO IRS	TO RECIPIENT
1042S	Income Subject to Withholding Under Chapter 3, Internal Revenue Code	Payments subject to withholding under Chapter 3 of the Code, including interest, dividends, royalties, pensions and annuities, and compensation for personal services.	All amounts	March 15	March 15
1098	Mortgage Interest Statement	Mortgage interest you received in the course of your trade or business from individuals.	$600 or more	February 28	January 31
1099-A	Information Return for Acquisition or Abandonment of Secured Property	Information about the acquisition or abandonment of property that is security for a debt for which you are the lender.	All amounts	February 28	January 31
1099-B	Statement for Recipients of Proceeds from Broker and Barter Exchange Transactions	Sales or redemptions of securities, futures transactions, commodities, and bartering exchange transactions.	All amounts	February 28	January 31
1099-DIV	Statement for Recipients of Dividends and Distributions	Distributions, such as dividends, capital gains, or nontaxable distributions, that were paid on stock, and distributions in liquidation of $600 or more.	$10 or more, except $600 or more for liquidations	February 28	January 31
1099-G	Statement for Recipients of Certain Government Payments	Unemployment compensation, state and local income tax refunds, agricultural payments, taxable grants, and discharge of indebtedness.	$10 for unemployment and tax refunds; $600 for all others	February 28	January 31
1099-INT	Statement for Recipients of Interest Income	Interest payments not including interest on an IRA, SEP, or DEC.	$10 or more ($600 in some cases)	February 28	January 31
1099-MISC	Statement for Recipients of Miscellaneous Income (Also, use this form to report the occurrence of direct sales of $5,000 or more of consumer goods for resale.)	Rent or royalty payments; prizes and awards that are not for services, such as winnings on TV or radio shows.	$600 or more	February 28	January 31
		Payments to crewmembers by owners or operators of fishing boats. Report payments of proceeds from sale of catch.	All payments		
		Payments to a physician, physicians' corporation or other supplier of health and medical services. Issued mainly by medical assistance programs or health and accident insurance plans.	$600 or more		
		Payments for services performed for a trade or business by people not treated as its employees. Examples: fees to subcontractors or directors, expenses incurred for use of an entertainment facility treated as compensation to a nonemployee and golden parachute payments.	$600 or more		
		Substitute dividend and interest payments reportable by brokers.	$10 or more		
1099-OID	Statement for Recipients of Original Issue Discount	Original issue discount.	$10 or more	February 28	January 31
1099-PATR	Statement for Recipients (Patrons) of Taxable Distributions Received from Cooperatives	Distributions from cooperatives to their patrons.	$10 or more	February 28	January 31
1099-R	Statement for Recipients of Total Distributions from Profit-Sharing, Retirement Plans, Individual Retirement Arrangements, Etc.	Distributions from retirement or profit-sharing plans or from individual retirement arrangements (IRA's). Use Form 1099-R only if the distribution closed the payee's account.	All amounts	February 28	January 31
5498	Individual Retirement Arrangement Information	Contributions (including rollover contributions) to an individual retirement arrangement (IRA), simplified employee pension (SEP), or a plan that accepts qualified deductible voluntary employee contributions (DEC's).	All amounts	May 31	May 31 (IRA, SEP) January 31 (DEC)

Guide to Information Returns *(Continued)*

FORM NUMBER	TITLE	WHAT TO REPORT	AMOUNTS TO REPORT	DUE DATE	
				TO IRS	TO RECIPIENT
8300	Report of Cash Payments Over $10,000 Received in a Trade or Business	Payments in cash or foreign currency received in one transaction, or two or more related transactions, in the course of a trade or business. Does not apply to banks and financial institutions filing **Form 4789**, Currency Transaction Report, or, generally, to transactions outside the United States.	Over $10,000	Within 15 days after the date of the transaction	January 31
W-2G	Statement for Recipients of Certain Gambling Winnings	Gambling winnings from horse racing, dog racing, jai alai, lotteries, raffles, drawings, bingo, slot machines, and keno.	Generally, $600 or more ($1,200 or more from bingo or slot machines; $1,500 or more from keno)	February 28	January 31
				TO SSA	TO RECIPIENT
W-2	Wage and Tax Statement	Wages, tips, other compensation, withheld income and FICA taxes, and advance earned income credit (EIC) payments. Include bonuses, vacation allowances, severance pay, moving expense payments, some kinds of travel allowances and third-party payments of sick pay.	See separate instructions	February 28	January 31
W-2P	Statement for Recipients of Annuities, Pensions, Retired Pay, or IRA Payments	Retirement payments other than total distributions. If you are the trustee or custodian, include the current insurance premiums you paid.	See separate instructions	February 28	January 31

Form **1116**

Department of the Treasury
Internal Revenue Service

Computation of Foreign Tax Credit

Individual, Fiduciary, or Nonresident Alien Individual

▶ **Attach to Form 1040, 1040NR, 1041, or 990-T.**

▶ **See separate Instructions.**

OMB No. 1545-0121

1985

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Name

Identifying number as shown on page 1 of your tax return

Use a separate Form 1116 for each type of income. Check only one box. This form is being completed for credit for taxes on:

☐ Nonbusiness (section 904(d)) interest income
☐ Dividends from an IC-DISC or former DISC
☐ Distributions from a Foreign Sales Corporation (FSC) or former FSC
☐ All other income from sources outside the United States (including income from sources within U.S. possessions)

Resident of (name of country)

Note: *If you paid taxes to one foreign country, use column A in Parts I and II. If you paid taxes to* ***more than one*** *foreign country, use a separate column for each country.*

Part I Taxable Income From Sources Outside the United States

	Foreign Country or U.S. Possession			Total
	A	B	C	(Add Cols. A, B, and C)
Write the Name of the Foreign Country or U.S. Possession ▶				
1 Gross income from sources within country shown above (see instructions):				
a Dividends				
b Gross rents and royalties				
c Foreign source capital gain net income				
d Wages, salaries, and other employee compensation				
e Business or profession (Schedules C or F (Form 1040), K-1 (Form 1065), and K-1 (Form 1120S))				
f Gross income from trusts and estates				
g Other (including interest—attach schedule)				
h Add lines 1a through 1g				1h
2 Applicable deductions and losses (see instructions):				
a Expenses directly allocable to the income on line 1e				
b Depreciation, depletion, repairs, and other expenses directly allocable to the income on line 1b				
c Other expenses directly allocable to specific income items (attach schedule)				
d Pro rata share of all other deductions not directly allocable:				
(i) Itemized deductions (attach schedule)				
(ii) Other deductions (attach schedule)				
(iii) Add lines 2d(i) and 2d(ii)				
(iv) Total foreign source income (see instructions)				
(v) Gross income from all sources (see instructions)				
(vi) Divide line 2d(iv) by line 2d(v)				
(vii) Multiply line 2d(iii) by line 2d(vi)				
e Losses from foreign sources				
f Add lines 2a through 2c, 2d(vii), and 2e				2f

3 Subtract line 2f from line 1h. Enter the result here and in Part III, line 6 ▶ 3

Part II Foreign Taxes Paid or Accrued (Attach receipt or copy of return)

Country	1. Credit is claimed for taxes (you must check one): ☐ Paid; or ☐ Accrued	2. Foreign Taxes Paid or Accrued						
		In Foreign Currency			In U.S. Dollars			
		Taxes Withheld at Source on:		(c) Other Foreign Taxes Paid or Accrued	Taxes Withheld at Source on:		(f) Other Foreign Taxes Paid or Accrued	(g) Total Foreign Taxes Paid or Accrued (Add Cols. (d), (e), and (f))
	Date Paid or Accrued	(a) Dividends	(b) Rents and Royalties		(d) Dividends	(e) Rents and Royalties		
A								
B								
C								

3 Add lines A through C, column (g). Enter the total here and on Part III, line 1 ▶

For Paperwork Reduction Act Notice, see page 1 of separate Instructions.

Form **1116** (1985)

Part III Computation of Foreign Tax Credit

1	Enter amount from Part II, line 3. (This is the total foreign taxes paid or accrued.)	1			
2	Carryback or carryover (attach detailed computation)	2			
3	Add lines 1 and 2	3			
4	Reduction in foreign taxes (see instructions)	4			
5	Subtract line 4 from line 3. (This is the total amount of foreign taxes available for credit.)			5	
6	Enter amount from Part I, line 3. (This is your taxable income (or loss) from sources outside the United States.) If this is a loss, you have no foreign tax credit for the type of income you checked on page 1. Skip lines 7 through 15	6			
7	Recapture of prior year overall foreign losses (attach computation)	7			
8	Subtract line 7 from line 6. This is your net foreign source taxable income			8	
9	**Individuals:** Enter amount from Form 1040, line 35, or from Form 1040NR, line 37. **Estates and trusts:** Make no entry; skip to line 11	9			
10	Enter $3,540 (joint return or widow(er)), $2,390 (single or head of household), or $1,770 (married filing separate return)	10			
11	**Individuals:** Subtract line 10 from line 9. **Estates and trusts:** Enter on this line your taxable income without the deduction for your exemption			11	
12	Divide line 8 by line 11. (If line 8 is more than line 11, enter the figure "1.")			12	
13	**Individuals:** Enter amount from Form 1040, line 46, or Form 1040NR, line 47. **Estates and trusts:** Enter amount from Form 1041, line 25c, or Form 990-T, line 8			13	
14	Multiply line 13 by line 12. (Maximum amount of credit.)			14	
15	Enter the amount from line 5 or line 14, whichever is smaller. (If this is the only Form 1116 you are completing, skip lines 1 through 4 in Part IV and enter this amount on line 5, Part IV. Otherwise, complete the appropriate lines in Part IV.) ▶			15	

Part IV Summary of Credits From Separate Parts III (See Instructions)

1	Credit for taxes on nonbusiness (section 904(d)) interest income	1			
2	Credit for taxes on dividends from an IC-DISC or former DISC	2			
3	Credit for taxes on distributions from a FSC or former FSC	3			
4	Credit for taxes on all other income from sources outside the United States (including income from sources within U.S. possessions)	4			
5	Add lines 1 through 4			5	
6	Reduction of credit for international boycott operations (see "Reduction of Credit for International Boycott Operations" in instructions for Part III)			6	
7	Subtract line 6 from line 5. This is your foreign tax credit. Enter here and on Form 1040, line 47; Form 1040NR, line 48; Form 1041, line 26a; or Form 990-T, line 9(a) ▶			7	

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Department of the Treasury
Internal Revenue Service

Instructions for Form 1116

Computation of Foreign Tax Credit

Individual, Fiduciary, or Nonresident Alien Individual

(Section references are to the Internal Revenue Code, unless otherwise noted.)

General Instructions

Paperwork Reduction Act Notice.— We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Changes You Should Note

Schedule A (Form 1116) has been eliminated. If you paid taxes to more than one foreign country, use a separate column of Form 1116 for each country.

Who Should Use This Form

Use Form 1116 to figure the amount of your foreign tax credit if you are an individual, estate, or trust.

To take this credit, complete Form 1116 and attach it to your income tax return. Use a separate Form 1116 (Parts I, II, and III) to figure the credit for foreign taxes paid or accrued for each type of income specified above Part I of the form. If for the box you check, you have income from, or have paid taxes to, more than one foreign country or U.S. possession, use a separate column in Parts I and II for each country. If you paid taxes to more than three countries, attach additional sheets following the format of Parts I and II.

Additional Information.—Publication 514, Foreign Tax Credit for U.S. Citizens and Resident Aliens, contains a detailed explanation of how to figure the foreign tax credit. You can get it from an IRS Forms Distribution Center.

Note: *U.S. citizens who live in France may be able to take a foreign tax credit against their U.S. tax liability for the French tax imposed on certain items of income from the United States. See Publication 514 for more information.*

Who May Not Take the Credit

- A U.S. citizen who is exempt from U.S. tax on income from certain U.S. possessions.
- A bona fide resident of the Virgin Islands on the last day of your tax year.
- A nonresident alien. However, if you are a nonresident alien, you may be able to take the credit if:

(1) You are a resident of Puerto Rico during your entire tax year; or

(2) You are a nonresident alien who pays or accrues tax to a foreign country or U.S. possession on income from foreign sources that is effectively connected with a trade or business in the United States. However, if you have to pay tax to a foreign country or U.S. possession on income from U.S. sources only because you are a citizen or a resident of that country or U.S. possession, that tax may not be used in figuring the amount of your credit. Citizens of a U.S. possession (except Puerto Rico or Guam) who are not otherwise citizens or residents of the United States are considered nonresident aliens.

For more information, see **Publication 519,** U.S. Tax Guide for Aliens.

Foreign Taxes For Which You May Take a Credit

You may take a credit for income, war profits, and excess profits taxes paid or accrued during the tax year to any foreign country or U.S. possession or any political subdivision, agency, or instrumentality of the country or possession. (Examples of political subdivisions are a city, state, or province.) For purposes of this credit, U.S. possessions include Puerto Rico, Guam, and the Virgin Islands.

These taxes include taxes that are paid or accrued in lieu of an income, war profits, or excess profits tax that is otherwise generally imposed.

Foreign Taxes For Which You May Not Take a Credit

- Taxes paid to a foreign country that would be refunded to you if you made a refund claim.
- Certain payments made to a foreign country for the purchase or sale of oil or gas if you do not have an economic interest in the oil or gas to which these payments apply and the price paid or received is different than the fair market value of the oil or gas. (Section 901(f).)
- Foreign taxes paid or accrued after 1982 on foreign oil-related income to the extent the tax imposed by the foreign country on the oil-related income is materially greater than the tax generally imposed by that country on other kinds of income. However, the amount of tax not allowed as a credit under this rule is allowed as a business expense deduction. (Section 907(b).)
- Foreign taxes paid or accrued on distributions attributable to the foreign trade income (other than nonexempt foreign trade income determined without regard to administrative pricing rules) of a Foreign Sales Corporation (FSC). (Section 901(h).)

You may **not** take a credit for any interest or penalties you must pay.

Credit or Deduction

Instead of taking the credit on Form 1116, you may choose to deduct foreign income taxes as a deduction (Schedule A (Form 1040) for Form 1040 filers). If you take the credit for any allowable foreign taxes, you may not take any part of that year's tax as a deduction in the year you take the credit or in any later year. You may take a deduction for foreign taxes not allowed as a credit because of boycott provisions.

If you want to change your election to take a deduction instead of a credit, or a credit instead of a deduction, you must do so by the end of the period prescribed for making a claim for credit or refund of tax for that tax year.

Method of Reporting

Report all amounts on the form in U.S. dollars except where specified otherwise in Part II, Foreign Taxes Paid or Accrued. If you have to convert from foreign currency, attach a detailed explanation of how you figured the conversion rate.

If you take a credit for taxes paid, the conversion rate is the rate of exchange in effect on the day you paid the foreign taxes. If you choose to take the credit for accrued taxes, the conversion rate is the rate of exchange in effect on the last day of your tax year. However, if a different rate of exchange is in effect when the tax is actually paid, use the rate in effect on the day you pay the tax. If you have to pay additional foreign taxes or receive a foreign tax refund and have filed your return, you must file **Form 1040X,** Amended U.S. Individual Income Tax Return, or an amended return immediately to notify the Service so that the amount of your U.S. tax for the year or years affected can be redetermined.

Note: *If you do not notify the Service of a foreign tax refund, you may have to pay a penalty.*

Line-by-Line Instructions

Part I.—Taxable Income From Sources Outside the United States

Line 1.—Include all income that is from sources within the country entered above line 1 (including high seas income) that is taxable by the United States whether or not it is taxable by that country.

Do not include any earned income excluded on **Form 2555,** Foreign Earned Income. For more information on the exclusion of income earned abroad, see **Publication 54,** Tax Guide for U.S. Citizens and Resident Aliens Abroad.

On line 1c enter the gain from the sale or exchange of capital assets (including gains treated as capital gains under section 1231) only to the extent of foreign source capital gain net income. (This is either capital gain net income from sources outside the United States or from all sources, whichever is less.) "Capital gain net income" is the amount of gains over losses from the sale or exchange of capital assets.

A gain on a sale or exchange of a capital asset that is personal property (including gain under section 1231) will be considered to be from U.S. sources if the sale or exchange occurs outside the country or U.S. possession (1) in which you live, or (2) in which the property (except for stock in a corporation) was used in a trade or business, or (3) in which you got more than 50% of your gross income during the past 3 years. However, such sales will not be considered from within U.S. sources if they are subject to a tax by a foreign country or U.S. possession at the rate of 10% or more of the gain.

Note: *See section 863(c) for the rules regarding the source of income attributable to transportation services that begin in the United States or a U.S. possession.*

Part of the following types of income derived from a U.S.-owned foreign corporation that has income from U.S. sources may be treated as U.S. source income. See section 904(g).

- Foreign personal holding company income included in gross income under section 551.
- Subpart F income included in gross income under section 951(a).
- Interest.
- Dividends.

Line 2.— Do not include deductions and losses related to exempt or excluded income such as foreign earned income excluded on Form 2555.

Enter on lines 2a, b, and c all deductions that apply directly to gross income from foreign sources. This may include deductions included in the amount on Form 1040, line 31 (such as expenses incurred to move to a new principal place of work outside the United States) and on Schedule A (Form 1040), line 26 (such as supplies you bought for your job outside the United States).

Figure on line 2d the pro rata share of all other deductions (such as itemized deductions not included in the amount on line 2c, or the zero bracket amount if you are an individual and do not itemize) that you cannot allocate to specific items of income. You can figure this amount by following steps 2d(i) through 2d(vii). For this computation, total foreign source income (line 2d(iv)) and gross income from all sources (line 2d(v)) include amounts exempt or excluded, such as:

- The income of a nonresident alien that is not effectively connected with a trade or business in the United States; or
- Foreign earned income excluded on Form 2555.

The deduction for personal exemptions is **not** allowed in figuring taxable income for this purpose. See Publication 514 for an example.

Note: *For tax years beginning after August 13, 1983, and before August 2, 1985, all research and experimental expenditures attributable to research conducted in the United States should be allocated to U.S. source income.*

Part II.—Foreign Taxes Paid or Accrued

You may take the credit in the tax year you paid or accrued the taxes, depending upon your method of accounting. If you report on the cash basis, you may choose to take the credit for accrued taxes. Do this by checking the "accrued box" in Part II of Form 1116 . Once you choose to do this, however, you must credit foreign taxes in the year they accrue on all future returns.

Proof of Credits.—You must verify payment or accrual of each item of foreign tax for which you take a credit. Do this by attaching to Form 1116 either a receipt (if you paid the tax) or a copy of the foreign tax return on which the tax is based (if you accrued, but did not pay the tax). Include a certified translation if the return or receipt is in a foreign language. IRS may accept secondary evidence of foreign taxes paid or accrued if you can show that it is impossible to provide a receipt, return, or direct evidence of tax withheld.

If you take a credit for tax accrued but not paid, IRS may have you send a bond on **Form 1117,** Income Tax Surety Bond, before the credit is allowed.

Note: *If you are taking a credit for additional taxes paid or accrued as the result of an audit by the foreign taxing authority, attach a statement to Form 1116 identifying these taxes.*

Part III.—Computation of Foreign Tax Credit

Line 2.—You may carry back 2 years and then forward 5 years the taxes you paid or accrued to any foreign country or U.S. possession (reduced as described below) that are more than the limitation. First apply the excess to the earliest of the 7 years to which it may be carried. Then apply it to the next earliest year, etc. (Section 904(c).) The 7-year carryback and carryover period may not be extended even if you are unable to take a credit in one of the intervening years.

If you did not take a credit in a tax year to which the excess is carried, the excess is considered used in that year in the same way as though you had claimed a credit.

Apply the carryback and carryover provisions separately to the excess for the following:

- Nonbusiness interest income.
- Dividends from an IC-DISC or former DISC.
- Distributions from a FSC (or former FSC) attributable to foreign trade income.
- All other income from sources outside the United States.

Special rules apply to the carryback and carryover of foreign taxes paid or accrued on foreign oil-related income. See sections 907(e) and (f).

If you used the per-country limitation in your last tax year beginning before 1979 for U.S. possession income, special carryback and carryover provisions apply. For more information, write to the Internal Revenue Service, Foreign Operations District, P.O. Box 384, FOD:8, Washington, DC 20044.

File Form 1040X or amended return, and a revised form 1116 for each earlier tax year to which you are carrying back the excess foreign tax credit.

Line 4.—You may have to reduce the foreign taxes you paid or accrued by the following items.

- *Taxes on Income Excluded on Form 2555.*— Reduce taxes paid or accrued by the taxes allocable to foreign earned income excluded on Form 2555. If only part of your income is excluded, you must reduce the taxes paid or accrued by the amount allocable to the excluded income. To find the amount allocable to the excluded income, multiply the foreign taxes paid or accrued on foreign earned income received or accrued during the tax year by a fraction. The numerator of the fraction is the foreign earned income excluded for the tax year less otherwise deductible expenses allocable to that income. The denominator is foreign earned income received or accrued during the tax year less deductible expenses allocable to that income. The comprehensive example in Publication 514 shows how to figure the allocation.

If the foreign law charges tax on foreign earned income and some other income (for example, earned income from U.S. sources or a type of income not subject to U.S. tax) and the taxes on the other income cannot be segregated, the denominator is the total amount of income subject to foreign tax less deductible expenses allocable to that income.

- *Taxes on Foreign Oil and Gas Extraction Income.*—Reduce taxes paid or accrued on foreign oil and gas extraction income as provided by section 907(a).

See section 907(c)(4) for the rules regarding the recharacterization of foreign oil and gas extraction losses.

- *Taxes on Foreign Mineral Income.*— Reduce taxes paid or accrued on mineral income from a foreign country or U.S. possession if you got a deduction for percentage depletion under section 613 for any part of the mineral income. (Section 901(e).)

- *Reduction for Failure to File Form 5471.* — U.S. shareholders who control a foreign corporation must file **Form 5471**, Information Return With Respect to a Foreign Corporation. If, by the due date of your income tax return, you do not file Form 5471, you must reduce by 10% all foreign taxes that you otherwise may take into account for the foreign tax credit. You may have to make additional reductions if the failure continues.

Note: *The reduction in foreign taxes is reduced by any dollar penalty imposed under section 6038(b).*

- *Reduction of Credit for International Boycott Operations.*—In general, if you agree to participate in, or cooperate with, an international boycott, file **Form 5713**, International Boycott Report. Reduce either the total taxes available for credit or the credit otherwise allowable.

If you can figure the taxes specifically for boycott operations, enter the amount on Part III, line 4.

However, if you cannot figure the amount of taxes attributable to boycott operations, multiply the credit otherwise allowable by the international boycott factor. Enter the result on Part IV, line 6.

For more information, see Form 5713 and its instructions.

If any of the above items apply to you, attach a statement showing in detail how you figured the reduction. Enter the total of the items to be subtracted from your foreign taxes on line 4.

Line 7.—In general, an "overall foreign loss" is the result you get by subtracting the gross income from sources outside the United States from the total deductions applicable to such income. However, see section 904(f) for certain losses not taken into account and special rules governing dispositions of property used mainly outside the United States in a trade or business. Also see section 904(f) if you received an accumulation distribution from a foreign trust.

If you have an overall foreign loss that offsets U.S. source income, a part of your foreign income is treated as U.S. source income in each following tax year. The part that is treated as U.S. source income is the smaller of: (1) the amount of overall foreign loss not recaptured in earlier years; or (2) 50% or more of your taxable income from foreign sources.

Enter the smaller of (1) or (2) on line 7 and attach your computation.

For more information, see Publication 514.

Note: *See section 211(e)(2) of Public Law 97-248, as amended by section 712(e) of Public Law 98-369, and section 306(a)(5) of Public Law 97-448 for special transitional rules that apply to the recapture of pre-1983 foreign oil-related losses.*

Part IV.—Summary of Credits From Separate Parts III

Complete this part on only one Form 1116 to summarize the credits you figured on separate Forms 1116. Enter the credits from line 15, Part III, of the separate Forms 1116 on lines 1 through 4 of Part IV, as appropriate. File the other Forms 1116 as attachments.

Form **1120**

Department of the Treasury
Internal Revenue Service

U.S. Corporation Income Tax Return

For calendar 1985 or tax year beginning ________________, 1985, ending ______________, 19 ____

▶ For Paperwork Reduction Act Notice, see page 1 of the instructions.

OMB No. 1545-0123

1985

Check if a—
A Consolidated return ☐
B Personal Holding Co. ☐
C Business Code No. (See the list in the Instructions)

Use IRS label. Otherwise please print or type.

Name

Number and street

City or town, state, and ZIP code

D Employer identification number

E Date incorporated

F Total assets (see Specific Instructions)

	Dollars	Cents
$		

G Check box if there has been a change in address from the previous year ▶ ☐

Income

1 a Gross receipts or sales ________ b Less returns and allowances ________ Balance ▶	1c		
2 Cost of goods sold and/or operations (Schedule A)	2		
3 Gross profit (line 1c less line 2)	3		
4 Dividends (Schedule C)	4		
5 Interest	5		
6 Gross rents	6		
7 Gross royalties	7		
8 Capital gain net income (attach separate Schedule D)	8		
9 Net gain or (loss) from Form 4797, line 17, Part II (attach Form 4797)	9		
10 Other income (see instructions—attach schedule)	10		
11 TOTAL income—Add lines 3 through 10 and enter here ▶	11		

Deductions

12 Compensation of officers (Schedule E)	12		
13 a Salaries and wages ________ b Less jobs credit ________ Balance ▶	13c		
14 Repairs	14		
15 Bad debts (Schedule F if reserve method is used)	15		
16 Rents	16		
17 Taxes	17		
18 Interest	18		
19 Contributions (**see instructions for 10% limitation**)	19		
20 Depreciation (attach Form 4562) 20 ________	▨		
21 Less depreciation claimed in Schedule A and elsewhere on return 21a ________	21b		
22 Depletion	22		
23 Advertising	23		
24 Pension, profit-sharing, etc. plans	24		
25 Employee benefit programs	25		
26 Other deductions (attach schedule)	26		
27 TOTAL deductions—Add lines 12 through 26 and enter here ▶	27		
28 Taxable income before net operating loss deduction and special deductions (line 11 less line 27)	28		
29 **Less:** a Net operating loss deduction (see instructions) 29a ________	▨		
b Special deductions (Schedule C) 29b ________	29c		

Tax and Payments

30 Taxable income (line 28 less line 29c)	30		
31 TOTAL TAX (Schedule J)	31		
32 **Payments:**	▨		
a 1984 overpayment allowed as a credit ________	▨		
b 1985 estimated tax payments ________	▨		
c Less 1985 refund applied for on Form 4466 (________) ________	▨		
d Tax deposited with Form 7004 ________	▨		
e Credit from regulated investment companies (attach Form 2439) ________	▨		
f Credit for Federal tax on gasoline and special fuels (attach Form 4136) ________	32		
33 Enter any **PENALTY** for underpayment of estimated tax—check ▶ ☐ if Form 2220 is attached	33		
34 **TAX DUE**—If the total of lines 31 and 33 is larger than line 32, enter AMOUNT OWED	34		
35 **OVERPAYMENT**—If line 32 is larger than the total of lines 31 and 33, enter AMOUNT OVERPAID	35		
36 Enter amount of line 35 you want: **Credited to 1986 estimated tax ▶** ________ **Refunded ▶**	36		

Please Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

▶ ________ Signature of officer | Date | ▶ ________ Title

Paid Preparer's Use Only

Preparer's signature ▶ | Date | Check if self-employed ▶ ☐ | Preparer's social security number

Firm's name (or yours, if self-employed) and address ▶ | E.I. No. ▶ | ZIP code ▶

Schedule A Cost of Goods Sold and/or Operations (See instructions for line 2, page 1)

1 Inventory at beginning of year	1	
2 Purchases	2	
3 Cost of labor	3	
4 Other costs (attach schedule)	4	
5 Total—Add lines 1 through 4	5	
6 Inventory at end of year	6	
7 Cost of goods sold and/or operations—Line 5 less line 6. Enter here and on line 2, page 1	7	

8 a Check all methods used for valuing closing inventory:

(i) ☐ Cost

(ii) ☐ Lower of cost or market as described in Regulations section 1.471-4 (see instructions)

(iii) ☐ Writedown of "subnormal" goods as described in Regulations section 1.471-2(c) (see instructions)

(iv) ☐ Other (Specify method used and attach explanation) ▶ ____________

b Check if the LIFO inventory method was adopted this tax year for any goods (if checked, attach Form 970) ☐

c If the LIFO inventory method was used for this tax year, enter percentage (or amounts) of closing inventory computed under LIFO . . . 8c ________

d If you are engaged in manufacturing, did you value your inventory using the full absorption method (Regulations section 1.471-11)? ☐ Yes ☐ No

e Was there any change in determining quantities, cost, or valuations between opening and closing inventory? ☐ Yes ☐ No
If "Yes," attach explanation.

Schedule C Dividends and Special Deductions (See instructions for Schedule C)

	(a) Dividends received	(b) %	(c) Special deductions: multiply (a) X (b)
1 Domestic corporations subject to 85% deduction (other than debt-financed stock)		85	
2 Debt-financed stock of domestic corporations (section 246A)		see instructions	
3 Certain preferred stock of public utilities		59.13	
4 Foreign corporations subject to 85% deduction		85	
5 Wholly-owned foreign subsidiaries and FSCs subject to 100% deduction (sections 245(b) and (c))		100	
6 Total—Add lines 1 through 5. See instructions for limitation	▨	▨	
7 Affiliated groups subject to the 100% deduction (section 243(a)(3))		100	
8 Other dividends from foreign corporations not included in lines 4 and 5		▨	▨
9 Income from controlled foreign corporations under subpart F (attach Forms 5471)		▨	▨
10 Foreign dividend gross-up (section 78)		▨	▨
11 IC-DISC or former DISC dividends not included in line 1 and/or 2 (section 246(d))		▨	▨
12 Other dividends		▨	▨
13 Deduction for dividends paid on certain preferred stock of public utilities (see instructions)	▨	▨	
14 Total dividends—Add lines 1 through 12. Enter here and on line 4, page 1 ▶		▨	▨
15 Total deductions—Add lines 6, 7 and 13. Enter here and on line 29b, page 1 ▶			

Schedule E Compensation of Officers (See instructions for line 12, page 1)

Complete Schedule E only if total receipts (line 1a, plus lines 4 through 10, of page 1, Form 1120) are $150,000 or more.

(a) Name of officer	(b) Social security number	(c) Percent of time devoted to business	Percent of corporation stock owned (d) Common	Percent of corporation stock owned (e) Preferred	(f) Amount of compensation
		%	%	%	
		%	%	%	
		%	%	%	
		%	%	%	
		%	%	%	
		%	%	%	
		%	%	%	
Total compensation of officers—Enter here and on line 12, page 1					

Schedule F Bad Debts—Reserve Method (See instructions for line 15, page 1)

(a) Year	(b) Trade notes and accounts receivable outstanding at end of year	(c) Sales on account	Amount added to reserve (d) Current year's provision	Amount added to reserve (e) Recoveries	(f) Amount charged against reserve	(g) Reserve for bad debts at end of year
1980						
1981						
1982						
1983						
1984						
1985						

Schedule J Tax Computation
(See instructions)

1 Check if you are a member of a controlled group (see sections 1561 and 1563) . . . . ▶ ☐

2 If line 1 is checked, see instructions and enter your portion of the $25,000 amount in each taxable income bracket:

a $ ________ b $ ________ c $ ________ d $ ________

3 Income tax (see instructions to figure the tax; enter this tax or alternative tax from Schedule D, whichever is less). Check if from Schedule D ▶ ☐	3	
4 a Foreign tax credit (attach Form 1118)	4a	
b Possessions tax credit (attach Form 5735)	b	
c Orphan drug credit (attach Form 6765)	c	
d Credit for fuel produced from a nonconventional source (see instructions) . . .	d	
e Research credit (attach Form 6765)	e	
f General business credit. Enter here and check which forms are attached ☐ Form 3800 ☐ Form 3468 ☐ Form 5884 ☐ Form 6478 ☐ Form 8007	f	
5 Total—Add lines 4a through 4f	5	
6 Line 3 less line 5	6	
7 Personal holding company tax (attach Schedule PH (Form 1120))	7	
8 Tax from recomputing prior-year investment credit (attach Form 4255)	8	
9 Minimum tax on tax preference items (see instructions—attach Form 4626)	9	
10 Total tax—Add lines 6 through 9. Enter here and on line 31, page 1	10	

Additional Information (See instruction F)

	Yes	No
H Did the corporation claim a deduction for expenses connected with:		
(1) Entertainment facility (boat, resort, ranch, etc.)?		
(2) Living accommodations (except employees on business)? . .		
(3) Employees attending conventions or meetings outside the North American area? (See section 274(h).)		
(4) Employees' families at conventions or meetings?		
If "Yes," were any of these conventions or meetings outside the North American area? (See section 274(h).)		
(5) Employee or family vacations not reported on Form W-2? . .		
I (1) Did the corporation at the end of the tax year own, directly or indirectly, 50% or more of the voting stock of a domestic corporation? (For rules of attribution, see section 267(c).) . .		
If "Yes," attach a schedule showing: (a) name, address, and identifying number; (b) percentage owned; (c) taxable income or (loss) before NOL and special deductions (e.g., If a Form 1120: from Form 1120, line 28, page 1) of such corporation for the tax year ending with or within your tax year; (d) highest amount owed by the corporation to such corporation during the year; and (e) highest amount owed to the corporation by such corporation during the year.		
(2) Did any individual, partnership, corporation, estate or trust at the end of the tax year own, directly or indirectly, 50% or more of the corporation's voting stock? (For rules of attribution, see section 267(c).) If "Yes," complete (a) through (e)		
(a) Attach a schedule showing name, address, and identifying number.		
(b) Enter percentage owned ▶ ________		
(c) Was the owner of such voting stock a person other than a U.S. person? (See instructions) (Note: If "Yes," the corporation may have to file Form 5472.)		
If "Yes," enter owner's country ▶ ________		
(d) Enter highest amount owed by the corporation to such owner during the year ▶ ________		
(e) Enter highest amount owed to the corporation by such owner during the year ▶ ________		

	Yes	No
(**Note:** *For purposes of I(1) and I(2), "highest amount owed" includes loans and accounts receivable/payable.)*		
J Refer to the list in the instructions and state the principal: Business activity ▶ ________ Product or service ▶ ________		
K Was the corporation a U.S. shareholder of any controlled foreign corporation? (See sections 951 and 957.)		
If "Yes," attach Form 5471 for each such corporation.		
L At any time during the tax year, did the corporation have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)?		
(See instruction F for exceptions and filing requirements for form TD F 90-22.1.) If "Yes," write the name of the foreign country ▶ ________		
M Was the corporation the grantor of, or transferor to, a foreign trust which existed during the current tax year, whether or not the corporation has any beneficial interest in it?		
If "Yes," the corporation may have to file Forms 3520, 3520-A or 926.		
N During this tax year, did the corporation pay dividends (other than stock dividends and distributions in exchange for stock) in excess of the corporation's current and accumulated earnings and profits? (See sections 301 and 316.)		
If "Yes," file Form 5452. If this is a consolidated return, answer here for parent corporation and on Form 851, Affiliations Schedule, for each subsidiary.		
O During this tax year did the corporation maintain any part of its accounting/ tax records on a computerized system?		
P Check method of accounting: (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (specify) ▶ ________		

Schedule L Balance Sheets

	Beginning of tax year		End of tax year	
Assets	**(a)**	**(b)**	**(c)**	**(d)**
1 Cash				
2 Trade notes and accounts receivable				
a Less allowance for bad debts				
3 Inventories				
4 Federal and State government obligations				
5 Other current assets (attach schedule)				
6 Loans to stockholders				
7 Mortgage and real estate loans				
8 Other investments (attach schedule)				
9 Buildings and other depreciable assets				
a Less accumulated depreciation				
10 Depletable assets				
a Less accumulated depletion				
11 Land (net of any amortization)				
12 Intangible assets (amortizable only)				
a Less accumulated amortization				
13 Other assets (attach schedule)				
14 Total assets				
Liabilities and Stockholders' Equity				
15 Accounts payable				
16 Mortgages, notes, bonds payable in less than 1 year				
17 Other current liabilities (attach schedule)				
18 Loans from stockholders				
19 Mortgages, notes, bonds payable in 1 year or more				
20 Other liabilities (attach schedule)				
21 Capital stock: a Preferred stock				
b Common stock				
22 Paid-in or capital surplus				
23 Retained earnings—Appropriated (attach schedule)				
24 Retained earnings—Unappropriated				
25 Less cost of treasury stock		( )		( )
26 Total liabilities and stockholders' equity				

Schedule M-1 Reconciliation of Income Per Books With Income Per Return

Do not complete this schedule if the total assets on line 14, column (d), of Schedule L are less than $25,000.

1 Net income per books		7 Income recorded on books this year not included in this return (itemize) a Tax-exempt interest $	
2 Federal income tax			
3 Excess of capital losses over capital gains			
4 Income subject to tax not recorded on books this year (itemize)			
5 Expenses recorded on books this year not deducted in this return (itemize) a Depreciation $ b Contributions carryover $		8 Deductions in this tax return not charged against book income this year (itemize) a Depreciation $ b Contributions carryover $	
		9 Total of lines 7 and 8	
6 Total of lines 1 through 5		10 Income (line 28, page 1)—line 6 less line 9	

Schedule M-2 Analysis of Unappropriated Retained Earnings Per Books (line 24, Schedule L)

Do not complete this schedule if the total assets on line 14, column (d), of Schedule L are less than $25,000.

1 Balance at beginning of year		5 Distributions: a Cash	
2 Net income per books		b Stock	
3 Other increases (itemize)		c Property	
		6 Other decreases (itemize)	
		7 Total of lines 5 and 6	
4 Total of lines 1, 2, and 3		8 Balance at end of year (line 4 less line 7)	

1985

Department of the Treasury
Internal Revenue Service

Instructions for Forms 1120 and 1120-A

(Section references are to the Internal Revenue Code, unless otherwise noted.)

Changes You Should Note

New Reporting Requirements

All taxpayers claiming either a deduction or credit for automobiles or other "listed property" are required to complete the appropriate sections of Part III of **Form 4562**, Depreciation and Amortization.

Reduced Depreciation for Vehicles

For automobiles placed in service after April 2, 1985, the depreciation deduction for each vehicle, including any section 179 expense deduction, is limited to $3,200 in the first tax year, and $4,800 in each succeeding tax year. These limitations are further reduced if your business and/or investment use is less than 100%. See Form 4562 and instructions for limitations and details.

New Limitations for Investment Tax Credit

For an automobile leased or placed in service after April 2, 1985, the investment tax credit amount is limited to $675. This amount is further limited to $450 if the taxpayer elects not to decrease the basis for depreciation purposes. See **Form 3468**, Computation of Investment Credit, and instructions for limitations and details.

Form 1120-A

If a corporation meets **all** the qualifications under General Instruction B, Who May File Form 1120-A, it can file **Form 1120-A**, U.S. Short-Form Corporation Income Tax Return, instead of **Form 1120**, U.S. Corporation Income Tax Return.

Form 1120-A is now printed in a special colored ink to permit processing by optical character recognition (OCR) equipment. This equipment cannot process photocopies. Therefore, please file the original Form 1120-A, rather than a copy.

Voluntary Contributions to Reduce the Public Debt

Quite often inquiries are received about how voluntary contributions to reduce the public debt may be made. A corporation may contribute by enclosing a **separate** check, payable to "Bureau of the Public Debt," with the tax return. These amounts are tax-deductible, subject to the rules and limitations for charitable contributions. Please keep the contribution to reduce the public debt **separate** from any amount payable with the tax return. Tax remittances should be made payable to "Internal Revenue Service."

Paperwork Reduction Act Notice

We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

General Instructions

Note: In addition to those publications listed throughout these Instructions, taxpayers may wish to get: **Publication 534**, Depreciation; **Publication 535**, Business Expenses; and **Publication 542**, Tax Information on Corporations.

A. Purpose of Form

In general, Form 1120 and Form 1120-A are used to report income, gains, losses, deductions, and credits of U.S. corporations.

B. Filing Form 1120 and Form 1120-A

Who Must File

The organizations listed below must file Form 1120, unless they qualify to file Form 1120-A (**Note:** *If an organization more nearly resembles a corporation than a partnership or trust, it will be considered an association taxed as a corporation.*):

- Domestic corporations, whether or not they have any taxable income, unless exempt under section 501.
- Real estate investment trusts defined in section 856.
- Regulated investment companies defined in section 851.
- Insurance companies described in section 831.

Who May File Form 1120-A

Form 1120-A may be filed by a corporation if it meets **all** of the following requirements:

- Its gross receipts (line 1a on page 1) must be under $250,000;
- Its total income (line 11 on page 1) must be under $250,000;
- Its total assets (line 11, column (b), Part II on page 2) must be under $250,000;
- It does not have any ownership in a foreign corporation;
- It does not have foreign shareholders who own, directly or indirectly, 50% or more of its stock;
- It is not a member of a controlled group of corporations (sections 1561 and 1563);
- It is not a personal holding company (sections 541 through 547);
- It is not a consolidated corporate return filer;
- It is not a corporation undergoing a dissolution or liquidation;
- It is not filing its final tax return;
- Its only dividend income is from domestic corporations (none of which represent debt-financed securities), and those dividends qualify for the 85% deduction;
- It has no non-refundable tax credits other than the general business credit, which is the sum of the investment credit, jobs credit, alcohol fuel credit, and employee stock ownership plan credit; and
- It is not required to file a special tax return as stated below under Special Returns for Certain Organizations.

Form 1120-A Filers

To make it easier for us to process Form 1120-A, we ask all filers to please:

- Keep all entries inside the entry boxes;
- Not use dollar signs;
- If possible, type or machine print all entries on the tax return; and
- File the original form instead of a copy.

Special Returns for Certain Organizations

Certain organizations, listed below, may have to file special returns.

- Foreign corporations other than life and mutual insurance companies filing Forms 1120L and 1120M: File Form 1120F.
- Foreign sales corporations (section 922): File Form 1120-FSC.
- Life insurance companies (section 801): File Form 1120L.
- Mutual insurance companies (section 821): File Form 1120M.
- Farmers' cooperatives (section 1381): File Form 990-C.
- Exempt organizations with unrelated trade or business income: File Form 990-T.
- S corporations (section 1361): File Form 1120S.
- Interest Charge Domestic International Sales Corporations (section 992): File Form 1120-IC-DISC.
- Political organizations (section 527): File Form 1120-POL.
- Homeowners associations (section 528): File Form 1120-H.

When to File

In general, a corporation must file its income tax return by the 15th day of the 3d month after the end of the tax year. A new corporation filing a short period return must generally file by the 15th day of the 3d month after the short period ends. A corporation that has dissolved must generally file by the 15th day of the 3d month after the date it dissolved.

Extension.—File **Form 7004**, Application for Automatic Extension of Time To File Corporation Income Tax Return, to request an automatic 6-month extension of time to file.

Period covered.—File the 1985 return for calendar year 1985 and fiscal years that begin in 1985 and end in 1986. For a fiscal year, fill in the tax year space at the top of the form.

Final return.—If the corporation ceases to exist, write "Final return" at the top of the form. Do not file Form 1120-A; use Form 1120.

Where to File

Use the pre-addressed envelope. If you do not use the envelope, file your return at the applicable IRS address listed below.

If the corporation's principal business, office, or agency is located in ▼	Use the following Internal Revenue Service Center address ▼
New Jersey, New York City and counties of Nassau, Rockland, Suffolk, and Westchester	Holtsville, NY 00501
New York (all other counties), Connecticut, Maine, Massachusetts, Minnesota, New Hampshire, Rhode Island, Vermont	Andover, MA 05501
Alabama, Florida, Georgia, Mississippi, South Carolina	Atlanta, GA 31101
Kentucky, Michigan, Ohio, West Virginia	Cincinnati, OH 45999
Kansas, Louisiana, New Mexico, Oklahoma, Texas	Austin, TX 73301
Alaska, Arizona, California (counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo, and Yuba), Colorado, Idaho, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	Ogden, UT 84201
California (all other counties), Hawaii	Fresno, CA 93888
Illinois, Iowa, Missouri, Wisconsin	Kansas City, MO 64999
Arkansas, Indiana, North Carolina, Tennessee, Virginia,	Memphis, TN 37501
Delaware, District of Columbia, Maryland, Pennsylvania	Philadelphia, PA 19255

Corporations having their principal place of business outside the United States or claiming a possessions tax credit (section 936) must file with the Internal Revenue Service Center, Philadelphia, PA 19255.

The separate income tax returns of a group of corporations located in several Service Center regions may be filed with the Service Center for the area in which the principal office of the managing corporation that keeps all the books and records is located.

Signature

The return must be signed and dated by the president, vice president, treasurer, assistant treasurer, chief accounting officer, or any other corporate officer (such as tax officer) authorized to sign. A receiver, trustee, or assignee must sign and date any return required to be filed on behalf of a corporation.

If a corporate officer filled in the corporate tax return, the Paid Preparer's space under "Signature of officer" should remain blank. If someone prepares the tax return and does not charge the corporation, that person should not sign the return. Certain others who prepare the tax return should not sign. For example, a regular, full time employee of the corporation such as a clerk, secretary, etc., does not have to sign.

Generally, anyone who is paid to prepare the tax return must sign it and fill in the other blanks in the Paid Preparer's Use Only area of the return.

The preparer required to sign the return MUST complete the required preparer information and:

- Sign it, by hand, in the space provided for the preparer's signature. (Signature stamps or labels are not acceptable.)
- Give a copy of the tax return to the taxpayer in addition to the copy filed with IRS.

Tax return preparers should be familiar with their responsibilities. See **Publication 1045,** Information and Order Blanks for Preparers of Federal Income Tax Returns, for more details.

C. Figuring and Paying the Tax

1. Accounting

Accounting methods.—Taxable income must be computed using the method of accounting regularly used in keeping the corporation's books and records. In all cases, the method adopted must clearly reflect taxable income. (See section 446.)

Generally, corporations engaged in farming operations must use the accrual method of accounting. See section 447 for exceptions.

Unless the law specifically permits otherwise, the corporation may change the method of accounting used to report taxable income in earlier years (for income as a whole or for any material item) only by first getting consent on **Form 3115,** Application for Change in Accounting Method. Also see **Publication 538,** Accounting Periods and Methods.

Change in accounting period.—Before changing an accounting period, the Commissioner's approval must be obtained (Regulations section 1.442-1) by filing **Form 1128**, Application for Change in Accounting Period. Also see Publication 538.

2. Rounding Off To Whole-Dollar Amounts

The corporation may show the money items on the return and accompanying schedules as whole-dollar amounts. To do so, drop any amount less than 50 cents and increase any amount from 50 cents through 99 cents to the next higher dollar.

3. Depositary Method of Tax Payment

The corporation must pay the tax due in full when the return is filed but no later than 2½ months after the end of the tax year.

Deposit corporation income tax payments (and estimated tax payments) with a Federal Tax Deposit Coupon (**Form 8109**). Make these tax deposits with either a financial institution qualified as a Depositary for Federal taxes or the Federal Reserve Bank or Branch servicing the geographic area where the corporation is located. Do not submit deposits directly to an IRS office, otherwise the corporation may be subject to a 5% Federal Tax Deposit penalty. Records of deposits will be sent to IRS for crediting to the corporation's account. See the instructions contained in the coupon book (Form 8109) for more information.

To get more deposit coupons, use the reorder form (**Form 8109A**) provided in the coupon book.

For more information concerning deposits, see **Publication 583,** Information for Business Taxpayers.

4. Estimated Tax

A corporation must make estimated tax payments if it can expect its estimated tax (income tax minus credits) to be $40 or more. Use **Form 1120-W**, Corporation Estimated Tax, as a worksheet to compute estimated tax. Use the Payment Coupons (Forms 8109) in making deposits of estimated tax.

If the corporation overpaid estimated tax, it may be able to get a "quick refund" by filing **Form 4466**, Corporation Application for Quick Refund of Overpayment of Estimated Tax. The overpayment must be both: **(1)** at least 10% of expected income tax liability, and **(2)** at least $500. To apply, file Form 4466 within 2 ½ months after the end of the tax year and before the corporation files its tax return.

5. Timing Change in Deducting Accrued Expenses

Generally, an accrual basis taxpayer can deduct accrued expenses in the tax year that all events have occurred that determine the liability and the amount of the liability can be figured with reasonable accuracy. However, generally all the events that establish liability for the amount are treated as occurring only when economic performance takes place. There are exceptions for recurring items. See section 461(h).

6. Rule of 78's Not an Acceptable Method of Figuring Interest

Taxpayers are reminded that generally, the Rule of 78's is not an acceptable method for computing interest income and expense. Anyone using the Rule of 78's should see Revenue Procedures 84-27, 84-28, 84-29 and 84-30, (which are in Cumulative Bulletin 1984-1) to change their method.

D. Penalties

Avoid penalties and interest by correctly filing and paying the tax when due. The corporation may have to pay the following penalties unless it can show that failure to file or to pay was due to reasonable cause and not willful neglect: (These penalties are in addition to the interest charge on unpaid tax that is figured at a rate that is determined under section 6621.)

- A corporation that fails to file its tax return when due (including any extensions of time for filing) may be subject to a penalty of 5% a month or fraction of a month, up to a maximum of 25%, for each month the return is not filed. (The penalty is imposed on the net amount due.) The minimum penalty for failure to file a tax return within 60 days of the due date for filing (including extensions) is the lesser of the underpayment of tax or $100.
- A corporation that fails to pay the tax when due may be subject to a penalty of ½% a month or fraction of a month, up to a maximum of 25%, for each month the tax is not paid. (The penalty is imposed on the net amount due.)
- A corporation that fails to pay the proper estimated tax when due may be subject to an underpayment penalty for the period of underpayment. To avoid the estimated tax penalty, the amount of estimated tax payments required by a corporation is 90%. See sections 6655(b)(1) and (d)(3).

Underpaid estimated tax.—If the corporation underpaid estimated tax, attach **Form 2220,** Underpayment of Estimated Tax by Corporations, to show how the corporation figured the penalty or which exceptions the corporation believes it meets. Also be sure to check the box on line 33, Form 1120 or line 29, Form 1120-A. If the corporation owes a penalty, enter the amount of the penalty on this line.

Penalty for overstated tax deposits.— If deposits are overstated, the corporation may be subject to a penalty. See section 6656(b).

E. Other Forms, Returns, Schedules, and Statements That May Be Required

1. Forms

The corporation may have to file any of the following:

Forms W-2 and W-3. Wage and Tax Statement; and Transmittal of Income and Tax Statements.

Form W-2P. Statement for Recipients of Annuities, Pensions, Retired Pay, or IRA Payments.

Form 966. Corporate Dissolution or Liquidation.

Form 1096. Annual Summary and Transmittal of U.S. Information Returns. (For transmitting Form 1099-R information, use Form W-3 G, Transmittal of Certain Information Returns.)

Form 1098. Mortgage Interest Statement. This form is used to report the receipt from any individual of $600 or more of mortgage interest in the course of the corporation's trade or business for any calendar year after 1984.

Forms 1099-A, B, DIV, INT, MISC, OID, PATR, and **R.** Information returns for reporting abandonments, acquisitions through foreclosure, proceeds from brokers and barter exchange transactions, certain dividends and distributions, interest income, payments for certain fishing boat crew members, medical and dental health care payments, direct sales of consumer goods for resale, miscellaneous income payments, nonemployee compensation, original issue discount, patronage dividends, and total distributions from profit-sharing plans, retirement plans, and individual retirement arrangements. Also use these returns to report amounts that were received as a nominee on behalf of another person.

For more information, see **Publication 916**, Information Returns.

Note: *Every corporation must file information returns if it makes payments of rents, commissions, or other fixed or determinable income (see section 6041) totaling $600 or more to any one person in the course of its trade or business during the calendar year.*

Form 5452. Corporate Report of Nontaxable Dividends.

Form 5498. Individual Retirement Arrangement Information, is to be used to provide IRS with contribution information on individual retirement accounts, simplified employee pensions, and deductible voluntary employee contributions.

Form 5713. International Boycott Report, for persons having operations in or related to "boycotting" countries. In addition, persons who participate in or cooperate with an international boycott, may have to complete Schedule A or Schedule B and Schedule C of Form 5713 to compute their loss of the following items: the foreign tax credit, the deferral of earnings of a controlled foreign corporation, IC-DISC benefits, and FSC benefits.

Form 8264. Application for Registration of a Tax Shelter. Used by tax shelter organizers to register tax shelters with the IRS, for the purpose of receiving a tax shelter registration number.

Form 8271. Investor Reporting of Tax Shelter Registration Number. Used by taxpayers who have acquired an interest in a tax shelter, which is required to be registered, to report the tax shelter's registration number. Form 8271 must be attached to any tax return (including an application for tentative refund (Form 1139) and an amended return (Form 1120X)) on which a deduction, credit, loss, or other tax benefit attributable to a tax shelter, is taken.

Form 8300. Report of Cash Payments Over $10,000 Received in a Trade or Business. Generally, this form is used to report the receipt of more than $10,000 in cash or foreign currency in one transaction (or a series of related transactions).

2. Consolidated Return

The parent corporation of an affiliated group of corporations must attach **Form 851,** Affiliations Schedule, to the consolidated return. For the first year a consolidated return is filed, each subsidiary must attach **Form 1122,** Authorization and Consent of Subsidiary Corporation to be Included in a Consolidated Income Tax Return.

File supporting statements for each corporation included in the consolidated return. Use columns to show the following, both before and after adjustments:

- Items of gross income and deductions.
- A computation of taxable income.
- Balance sheets as of the beginning and end of the tax year.
- A reconciliation of retained earnings.
- A reconciliation of income per books with income per return.

Attach consolidated balance sheets and a reconciliation of consolidated retained earnings.

3. Real Estate Investment Trusts

Attach the appropriate schedules to Form 1120. See sections 856 through 860 for special rules.

4. Statements

Stock ownership in foreign corporations.—Attach the required statement to Form 1120 if the corporation owned 5% or more in value of the outstanding stock of a foreign personal holding company and the corporation was required to include in its gross income any undistributed foreign personal holding company income from a foreign personal holding company. See section 551(c).

A corporation that controls a foreign corporation, or that is a 10%-or-more shareholder of a controlled foreign corporation, or acquires, disposes or owns 5% or more ownership in the outstanding stock of a foreign corporation, may have to file **Form 5471**, Information Return with Respect to a Foreign Corporation.

A domestic corporation or a foreign corporation that is engaged in a trade or business in the United States and is controlled by a foreign person may have to file **Form 5472**, Information Return of a Foreign Owned Corporation.

Transfers to a corporation controlled by the transferor.—If a person receives stock or securities of a corporation in exchange for property, and no gain or loss is recognized under section 351, the person (transferor) and the transferee must attach to Form 1120 the information required by Regulations section 1.351-3.

Corporations that liquidate within one calendar month under section 333.— These corporations must attach to Form 1120 a computation of accumulated earnings and profits, including all items of income and expense accrued up to the date the transfer of all property is completed. Use the format in Rev. Proc. 75-17, 1975-1 C.B. 677.

5. Amended Return

Use **Form 1120X,** Amended U.S. Corporation Income Tax Return, to correct any error in a previously filed Form 1120 or Form 1120-A.

6. Financial Statements

Do not complete Schedules M-1 and M-2 (Form 1120 only) if the corporation's total assets at the end of the tax year (line 14, column (d) of Schedule L, Form 1120) are less than $25,000.

A corporation that files Form 1120-A must complete all applicable lines of the return including Part III, Reconciliation of Income Per Books with Income Per Return. The less-than $25,000 assets exception noted in the previous paragraph does not apply to Form 1120-A.

7. Attachments

Attach **Form 4136,** Computation of Credit for Federal Tax on Gasoline and Special Fuels, after page 4, Form 1120 or page 2, Form 1120-A. Attach schedules in alphabetical order and other forms in numerical order after the Form 4136.

In order to process the return we ask that you complete every applicable entry space on Form 1120. Please, do not attach statements and write "See attached" in lieu of completing the entry spaces on Form 1120.

If more space is needed on the forms or schedules, attach separate sheets indicating at the top of each attachment the form number or schedule letter of the form or schedule being continued. Also, show the same information called for on the form in the same order as on the printed forms. **Be sure to show totals on the printed forms.** Please use sheets that are the same size as the forms and schedules. Attach these separate sheets after all the schedules and forms. Also, put the corporation's name and employer identification number (EIN) on each sheet.

F. Additional Information

Be sure to answer questions H through P on page 3, Form 1120, or questions I through O on page 2, Form 1120-A. The instructions that follow are keyed to these questions.

1. Question I(2)(c), Form 1120 only

U.S. person.— The term "U.S. person" means:

1. A citizen or resident of the United States;

2. A domestic partnership;

3. A domestic corporation; or

4. Any estate or trust (other than a foreign estate or trust within the meaning of section 7701(a)(31)).

"**Owner's country,**" for individuals, is the owner's country of residence. For all others, it is the country where incorporated, organized, created, or administered.

2. Question L, Form 1120, and Question M , Form 1120-A

Foreign financial accounts.— Check the Yes box if either **a.** or **b.**, below, applies to the corporation; otherwise, check the No box:

a. At any time during the year the corporation had an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account); AND

- The combined value of the accounts was more than $5,000 at any time during the year; AND
- The account was NOT with a U.S. military banking facility operated by a U.S. financial institution.

b. The corporation owns more than 50% of the stock in any corporation that would answer the question "Yes" based on Item **a** above.

Get form **TD F 90-22.1**, Report of Foreign Bank and Financial Accounts, to see if the corporation is considered to have an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account).

If Yes is checked for this question, file form TD F 90-22.1 by June 30, 1986, with the Department of the Treasury at the address shown on the form. Form TD F 90-22.1 is not a tax return, so do not file it with the IRS.

Form TD F 90-22.1 may be obtained from many IRS offices.

Also, if Yes is checked for this question, write the name of the foreign country or countries. Attach a separate sheet if more space is needed.

Specific Instructions

Employer identification number. If the employer identification number (EIN) on the label is wrong or if the corporation did not receive a label, enter the correct number at the top of the return. Also, filers of Form 1120-A should enter their EIN at the top of page 2 of the return.

A corporation that does not have an EIN should apply for one on **Form SS-4,** Application for Employer Identification Number. This form may be obtained from most IRS and Social Security Administration offices. Send Form SS-4 to the same Internal Revenue Service Center to which Form 1120 or Form 1120-A is mailed. If the EIN has not been received by the filing time for the corporation return, write "Applied for" in the space for the EIN.

For more information concerning an EIN, see Publication 583.

Total Assets. Enter the total assets of the corporation. If there are no assets at the end of the tax year, enter the total assets as of the beginning of the tax year.

Income

Line 1

Gross receipts

Enter gross receipts or sales from all business operations except those that must be reported in lines 4 through 10. For reporting advance payments and long-term contracts, see Regulations sections 1.451–3 and 1.451–5.

If the installment method is used, enter on line 1 the gross profit on collections from installment sales, and carry the same amount to line 3. Attach a schedule showing the following for the current year and the 3 preceding years: **a.** gross sales, **b.** cost of goods sold, **c.** gross profits, **d.** percentage of gross profits to gross sales, **e.** amount collected, and **f.** gross profit on amount collected.

Line 2

Cost of goods sold and/or operations

Both Form 1120 and Form 1120-A filers must enter their cost of goods sold and/or operations on line 2, page 1, of their respective forms. However, a Form 1120 filer must also complete Schedule A on page 2 of the form.

While there is not a similar schedule on Form 1120-A to compute this entry, the following worksheet is provided to help in figuring this amount.

Note: *If a corporation is using either Schedule A, Form 1120 or the following worksheet to figure cost of operations, where inventories are not an income-determining factor, it should do so by entering a zero on lines 1 and 6 of the schedule or worksheet.*

Worksheet

1. Inventory at start of year (enter here and on page 2, Part II, line 3, Column (a), Form 1120-A) . . . . ________
2. Purchases (enter here and on page 2, Item L(1), Form 1120-A) . . . . ________
3. Cost of labor (enter here and include in total on page 2, Item L(2), Form 1120-A) ________
4. Other costs (enter here and include in total on page 2, Item L(2), Form 1120-A) . . ________
5. Subtotal—Add lines 1 through 4 . . . . ________
6. Inventory at end of year (enter here and on page 2, Part II, line 3, Column (b), Form 1120-A) . . . . . . ________
7. Total–Line 5 less line 6 (enter here and on page 1, line 2, Form 1120-A) . . . ________

Inventory valuation methods. Inventories can be valued at: **1.** cost; **2.** cost or market value (whichever is lower); or **3.** any other method that is approved by the Commissioner of Internal Revenue and that conforms to the provisions of the applicable regulations cited below.

Taxpayers using erroneous valuation methods must change to a method permitted for Federal income tax purposes. Such change should be made by filing Form 3115. For more information about the change, see Regulations section 1.446-1(e)(3) and Rev. Proc. 84-74, 1984-2 C.B. 738.

In line 8a of Schedule A, Form 1120 only, check the method(s) used for valuing inventories. Under "lower of cost or market," market generally applies to normal market conditions where there is a current bid price prevailing at the date the inventory is valued. When no regular open market exists or when quotations are nominal because of inactive market conditions, use fair market prices from the most reliable sales or purchase transactions that occurred near the date the inventory is valued. For more requirements, see Regulations section 1.471–4.

Inventory may be valued below cost when the merchandise is **1.** unsalable at normal prices or **2.** unusable in the normal way because the goods are "subnormal" (that is because of damage, imperfections, shop wear, etc.) within the meaning of Regulations section 1.471–2(c). Such goods may be valued at a current bona fide selling price minus direct cost of disposition (but not less than scrap value) if such a price can be established. See Regulations section 1.471–2(c) for more requirements.

If this is the first year the "Last-in First-out" (LIFO) inventory method was either adopted or extended to inventory goods not previously valued under the LIFO method provided in section 472, attach **Form 970,** Application To Use LIFO Inventory Method, or a statement with the information required by Form 970. Also check the LIFO box in line 8b of Schedule A, Form 1120 only. Enter the amount or percent of total closing inventories covered under section 472 in line 8c. Estimates are acceptable.

If the corporation changed or extended its inventory method to LIFO and had to "writeup" its opening inventory to cost in the year of election, report the effect of this writeup as income (line 10, page 1) proportionately over a 3-year period that begins in the tax year you made this election. (Section 472(d).)

Full absorption method of inventory costing. For a corporation engaged in manufacturing or production operations, use the full absorption method of inventory costing. If the corporation is not using the full absorption method, it must change to it. Under this method, both direct and certain indirect production costs are included for inventory valuation purposes. Change to full absorption by filing Form 3115. For more details, see: Rev. Proc. 75-40, 1975-2 C.B. 571; Regulations section 1.471-11; and Rev. Rul. 81-272, 1981-2 C. B. 116.

Line 4

Dividends

Form 1120-A filers.—Because Form 1120-A can be filed by corporations that only received dividends from domestic corporations (which are not from debt-financed stock) which qualify for the 85% dividends-received deduction, they should enter the total of those dividends on line 4, page 1, Form 1120-A.

Form 1120 filers.—See the instructions for Schedule C, Form 1120

Line 5

Interest

Enter interest on U.S. obligations and on loans, notes, mortgages, bonds, bank deposits, corporate bonds, tax refunds, etc.

Do not offset interest income against interest expense.

Line 6

Gross rents

Enter the gross amount received for the rent of property. Deduct expenses such as repairs, interest, taxes, and depreciation in the proper lines for deductions.

Line 8

Capital gain net income

Every sale or exchange of a capital asset must be reported in detail on **Schedule D (Form 1120)**, Capital Gains and Losses, even though no gain or loss is indicated.

If the net long-term capital gain is more than the net short-term capital loss, or if there is only a net long-term capital gain, compute the alternative tax to see if it produces a smaller tax.

Line 9

Net gain or (loss)

Enter the net gain or (loss) from **Form 4797**, Gains and Losses From Sales or Exchanges of Assets Used in a Trade or Business and Involuntary Conversions, line 17, Part II.

Line 10

Other income

Enter any other taxable income not listed above, and explain its nature on an attached schedule. Examples of other income are recoveries of bad debts deducted in prior years under the specific charge-off method; the amount of credit for alcohol used as fuel (determined without regard to the limitation based on tax) that was entered on **Form 6478**, Credit for Alcohol Used as Fuel; and refunds of taxes deducted in prior years to the extent it reduced income subject to tax in the year deducted (see section 111). Do not offset current year's taxes with tax refunds.

If "other income" consists of only one item, explain what it is in parentheses on line 10.

Deductions

Limitations on deductions.—

1. Transactions between related taxpayers. Generally, an accrual basis taxpayer may only deduct business expenses and interest owed to a related party in the year the payment is included in the income of the related party. See section 267 for limitation on deductions for unpaid expenses and interest.

2. Limitation on deductions for tax preference items. Corporations may be required to reduce deductions for the following tax preference items by 20% except where noted:

a) Depletion of iron ore and coal (including lignite)(15%);

b) Section 1250 capital gain;

c) Amortizable basis of pollution control facilities (15% for property placed in service before January 1, 1985);

d) Intangible drilling, and exploration and development costs; and

e) Bad debt deductions for financial institutions.

3. Real property construction period interest and taxes. For construction started after 1982, no deduction (except as allowed under section 189(d)) shall be allowed for real property construction period interest and taxes. See section 189.

4. Golden parachute payments. A portion of the payments made by a corporation to key personnel that exceeds their usual compensation may not be deductible. This occurs when the corporation has an agreement (golden parachute) with these key employees to pay them these excessive amounts if control of the corporation changes. See section 280G.

5. Business start-up expenses are required to be capitalized unless an election is made to amortize over a period of 60 months. See section 195.

Line 12

Compensation of officers

Besides entering the total officer's compensation on line 12, Form 1120 filers must complete Schedule E on page 2 if their total receipts (line 1a, plus lines 4 through 10, of page 1, Form 1120) are $150,000 or more.

Complete Schedule E, columns (a) through (f), for all officers. The corporation determines who is an officer under the laws of the State where incorporated.

In a consolidated return, each member of an affiliated group must furnish this information.

Line 13

Salaries and wages

Enter on line 13a the amount of total salaries and wages paid or incurred for the tax year. Do not include salaries and wages deducted elsewhere on the return, such as contributions to a simplified employee pension.

Caution: If you provided taxable fringe benefits to your employees, such as personal use of a car, do not deduct as wages the amount allocated for depreciation and other expenses that you claimed on lines 20 and 26, Form 1120 or lines 20 and 22, Form 1120-A.

Enter on line 13b the amount of jobs credit from **Form 5884**, Jobs Credit.

Line 14

Repairs

Enter the cost of incidental repairs, such as labor and supplies, that do not add to the value of the property or appreciably prolong its life.

Line 15

Bad debts

Bad debts may be treated either:

1. As a deduction for debts that become worthless in whole or in part, or

2. As a deduction for a reasonable addition to a reserve for bad debts. (See section 166.)

Financial institutions should see section 291 for the limitation on the amount that may be deducted.

Use Form 3115 to apply for a change in the method of computing bad debts.

Line 17

Taxes

Enter taxes paid or accrued during the tax year, but do not include the following:

1. Federal income taxes;

2. Foreign or U.S. possession income taxes if a tax credit is claimed; or

3. Taxes not imposed on the corporation.

See section 164(d) for apportionment of taxes on real property between seller and purchaser.

Line 18

Interest

Note: *See section 1277 for rules on the deferral of the interest deduction that is allocable to accrued market discount on bonds acquired after July 18, 1984, and section 1282 for rules on the deferral of the interest deduction that is allocable to the accrued discount on certain short-term obligations acquired after July 18, 1984.*

Do not include interest on indebtedness incurred or continued to purchase or carry obligations on which the interest is wholly exempt from income tax. (For exceptions, see section 265(2).)

Mutual savings banks, building and loan associations, and cooperative banks can deduct the amounts paid or credited to the accounts of depositors as dividends, interest, or earnings. (See section 591.)

Generally, a cash basis taxpayer cannot deduct prepaid interest allocable to years following the current tax year. For example, a cash basis calendar year taxpayer, who in 1985 prepaid interest allocable to any period after 1985, can deduct only the amount allocable to 1985. Please see **Publication 545,** Interest Expense.

Generally, the interest and carrying charges on straddles cannot be deducted and must be capitalized. See section 263(g).

Line 19

Contributions

Enter contributions or gifts actually paid within the tax year to or for the use of charitable and governmental organizations described in section 170(c) and any unused contributions carried over from prior years.

The total amount claimed may not be more than 10% of taxable income (line 30, Form 1120 or line 26, Form 1120-A) computed without regard to the following:

1. Any deduction for contributions;

2. The special deductions in line 29b, Form 1120 or line 25b, Form 1120-A;

3. Deductions allowed under sections 249 and 250;

4. Any net operating loss carryback to the tax year under section 172; and

5. Any capital loss carryback to the tax year under section 1212(a)(1).

Charitable contributions over the 10% limitation may not be deducted for the tax year but may be carried over to the next 5 tax years.

A contribution carryover is not allowed, however, to the extent that it increases a net operating loss carryover. See section 170(d)(2)(B).

Corporations on the accrual basis may elect to deduct contributions paid by the 15th day of the 3d month after the end of the tax year if the contributions are authorized by the board of directors during the tax year. Attach to the return a declaration, signed by an officer, stating that the resolution authorizing the contributions was adopted by the board of directors during the tax year. Also attach a copy of the resolution.

If a contribution is in property other than money and the total claimed value of all property contributed exceeds $500, corporations (except closely held and personal service corporations) shall attach a schedule describing the kind of property contributed and the method used in determining its fair market value.

Closely held corporations and personal service corporations must complete **Form 8283**, Noncash Charitable Contributions, and attach it to their returns.

Also, a corporation must keep records, as required by the regulations for section 170, for all of its charitable contributions.

If the corporation made a "qualified conservation contribution" under section 170(h), also include the fair market value of the underlying property before and after the donation, the type of legal interest contributed, and describe the conservation purpose furthered by the donation.

If a contribution carryover is included, show the amount and how it was determined.

Special rule for contributions of certain property. For a charitable contribution of property, the corporation must reduce the contribution by the sum of:

1. The ordinary income, short-term capital gain that would have resulted if the property were sold at its fair market value; and

2. For certain contributions, 60.87% of the long-term capital gain that would have resulted if the property were sold at its fair market value.

The reduction for 60.87% of the long-term capital gain applies to:

1. Contributions of tangible personal property for use by an exempt organization for a purpose or function unrelated to the basis for its exemption, and;

2. Contributions of any property (except stock for which market quotations are readily available—see section 170(e)(5)) to or for the use of certain private foundations. (See section 170(e) and Regulations section 1.170A-4.)

For special rules for contributions of inventory and other property to certain organizations, see section 170(e)(3) and Regulations section 1.170A-4A.

Charitable contributions of scientific property used for research. A corporation (other than a personal holding company or a service organization) can receive a larger deduction for contributing scientific property used for research to an institution of higher education. For further information, see section 170(e).

Line 20

Depreciation

Besides depreciation, include in line 20 the part of the cost (up to $5,000) that the corporation elected to expense for certain recovery property placed in service during tax year 1985. See the instructions for **Form 4562**, Depreciation and Amortization.

Line 22, Form 1120 only

Depletion

See sections 613 and 613A for percentage depletion rates applicable to natural deposits. Also, see section 291 for the limitation on the depletion deduction for iron ore and coal (including lignite).

Attach **Form T (Timber)**, Forest Industries Schedules, if a deduction for depletion of timber is taken.

Line 24, Form 1120 only

Pension, profit-sharing, etc., plans

Employers who maintain a pension, profit-sharing, or other funded deferred compensation plan whether or not qualified under the Internal Revenue Code and whether or not a deduction is claimed for the current tax year, generally are required to file one of the forms described below. There are penalties for failure to timely file these forms.

Form 5500.—Complete this form for each plan with 100 or more participants.

Form 5500-C or 5500-R.—Complete the applicable form for each plan with fewer than 100 participants.

Line 25, Form 1120 only

Employee benefit programs

Enter the amount of contributions to employee benefit programs (for example, insurance, health and welfare programs) that are not an incidental part of a pension, profit-sharing, etc., plan included on line 24. Also include contributions to a qualified group legal services plan. See section 120(e) for termination of a qualified group legal services plan for tax years ending after December 31, 1985.

Line 26, Form 1120 and Line 22, Form 1120-A

Other deductions

Include in this line the deduction taken for amortization of pollution control facilities, organization expenses, etc. See Form 4562.

A corporation may deduct dividends it pays in cash on stock held by an employee stock ownership plan or tax credit employee stock ownership plan, that the corporation maintains. However, a deduction may only be taken if, according to the plan, the dividends are:

1. Paid in cash directly to the plan participants; or

2. Paid to the plan, which distributes them in cash to the plan participants no later than 90 days after the end of the plan year in which the dividends are paid. (See section 404(k).)

Generally, a deduction may not be taken for the amount of any item or part thereof allocable to a class of exempt income. (See section 265(2) for exceptions.)

Generally, a corporation can deduct all ordinary and necessary travel and entertainment expenses paid or incurred in its trade or business. However, it cannot deduct an expense paid or incurred for a facility (such as a yacht or hunting lodge) that is used for an activity that is usually considered entertainment, amusement, or recreation. (Note: The corporation may be able to deduct the expense if the amount is treated as compensation and reported on Form W-2 for an employee or on Form 1099-MISC for an independent contractor.)

See **Publication 463**, Travel, Entertainment, and Gift Expenses, for more details.

Note: *Do not deduct penalties imposed on corporations such as those included in General Instruction D.*

Form 1120-A filers.—These filers should also include on line 22 of Form 1120-A the expenses described above for lines 22, 24, and 25 of Form 1120 and any other deductible expense not discussed above.

Line 28, Form 1120 and Line 24, Form 1120-A

Taxable Income before NOL deduction and special deductions

Special "at risk" rules under section 465 generally apply to closely held corporations engaged in any activity as a trade or business or for the production of income. Such corporations may have to adjust the amount on line 28, Form 1120 or line 24, Form 1120-A. See below. However, the "at risk" rules do not apply to: 1. holding real property other than mineral property; 2. equipment leasing under sections 465(c)(4), (5), and (6); and (3) any qualifying business of a qualified corporation under section 465(c)(7).

Personal service corporations. Adjust the amount on this line for section 465(d) losses. These losses are limited to the amount for which such corporation is "at risk" for each separate activity at the close of the tax year. A corporation involved in more than one activity that incurs a loss for the year, should report each loss separately and file **Form 6198**, Computation of Deductible Loss From an Activity Described in Section 465(c), for each "at risk" activity.

If the corporation sells or otherwise disposes of an asset or its interest (either total or partial) in an activity to which the "at risk" rules apply, determine the net profit or loss from the activity by combining the gain or loss on the sale or disposition with the profit or loss from the activity. If the corporation has a net loss, it may be limited because of the "at risk" rules.

Treat any loss from an activity not allowed for the tax year as a deduction allocable to the activity in the next tax year.

Personal holding companies. For the amount to enter on line 28, Form 1120 only, see **Schedule PH (Form 1120)**, Computation of U.S. Personal Holding Company Tax, Specific Instructions for Line 1, regarding section 465 losses.

Line 29a, Form 1120 and Line 25a, Form 1120-A

Net operating loss deduction

The "net operating loss deduction" is the amount of the net operating loss carryovers and carrybacks that can be deducted in the tax year. See section 172(a). If this deduction is taken, explain its computation on an attached schedule.

Generally, a corporation may carry a net operating loss back to each of the 3 years preceding the year of the loss and carry it over to each of the 15 years following the year of the loss. A corporation may carry back 10 years the part of the net operating loss attributable to a product liability loss. (See section 172(b)(1)(I).) There is also an available election to carry a net operating loss over to just each of the 15 years following the year of the loss. The election may be made by attaching a statement to a return that is filed on time (including extensions). The election is irrevocable.

After applying the net operating loss to the first tax year to which it may be carried, the portion of the loss the corporation may carry to each of the remaining tax years is the excess, if any, of the loss over the sum of the modified taxable income for each of the prior tax years to which the corporation may carry the loss. (See section 172(b).)

If there is a carryback of a net operating loss, net capital loss, an unused investment credit, unused jobs credit, unused research credit, unused alcohol fuel credit, unused employee stock ownership plan credit, or for tax years beginning after 1983, an unused general business credit, file **Form 1139**, Corporation Application for Tentative Refund, within 12 months after the close of the tax year for a "quick refund" of taxes. (See section 6411.)

See section 172 for special rules, limitations, and definitions pertaining to net operating loss carrybacks and carryovers. Also see **Publication 536**, Net Operating Losses and the At-Risk Limits.

Line 29b, Form 1120 and Line 25b, Form 1120-A

Special deductions

Form 1120 filers.— See the instructions for Line 6, Column (c) under Schedule C, Form 1120.

Form 1120-A filers.— Generally, enter 85% of line 4, page 1, on line 25b. However, this deduction may not be more than 85% of line 24, page 1. For this purpose, compute line 24 without regard to any adjustment under section 1059, and without regard to any capital loss carryback to the tax year under section 1212(a)(1).

In a year in which a net operating loss occurs, this 85% limitation does not apply even if the loss is created by the dividends-received deduction. (See sections 172(d) and 246(b).)

Line 32e, Form 1120 and Line 28e, Form 1120-A

Credit for overpaid windfall profit tax

A corporation that has overpaid its windfall profit tax may claim a credit on its income tax return. Use **Form 6249**, Computation of Overpaid Windfall Profit Tax, to figure the credit. Include the amount of the credit in the total for this line. Write in the margin, next to the entry on this line, the amount of the credit and identify it as "Overpaid Windfall Profit Tax."

Schedule C, Form 1120 only

Dividends and Special Deductions

Line 1, Column (a)

Enter dividends (except those received on debt-financed stock acquired after July 18, 1984—see section 246A and line 2, column (a)) that are received from domestic corporations subject to income tax and that are subject to the 85% deduction under section 243(a)(1). Include on this line taxable distributions from an IC-DISC or former DISC that are designated as being eligible for the 85% deduction and after 1984, certain dividends of Federal Home Loan Banks (see section 246(a)(2)).

Small business investment companies must enter dividends received from domestic corporations subject to income tax even though a deduction is allowed for the entire amount of such dividends in line 1, column (c). For dividends received from a regulated investment company, see section 854 for the amount subject to the 85% deduction.

So-called dividends or earnings received from mutual savings banks, etc., are really interest. Do not treat them as dividends.

Line 2, Column (a)

Enter dividends on debt-financed stock (acquired after July 18, 1984) that are received from domestic corporations subject to income tax and that would otherwise be subject to the 85% dividends-received deduction under section 243(a)(1). Generally, debt-financed stock is stock that the corporation acquired, and, in doing so, incurred a debt (for example, it borrowed money to buy the stock). See the instructions for lines 1, 2, 3, 4, and 5, Column (c), below, as well as section 246A to figure the dividends-received deduction for this stock.

Line 3, Column (a)

Enter dividends received on the preferred stock of a public utility that is subject to income tax and is allowed the deduction provided in section 247 for dividends paid.

Line 4, Column (a)

Enter dividends that are received from foreign corporations and that qualify for the 85% deduction provided in section 245(a).

Line 5, Column (a)

Enter dividends that are received from wholly-owned foreign subsidiaries and FSCs, and that are eligible for the 100% deduction provided in sections 245(b) and (c), respectively.

In general, the deduction under section 245(b) applies to dividends paid out of the earnings and profits of a foreign corporation for a tax year during which:

1. All of its outstanding stock is owned (directly or indirectly) by the domestic corporation receiving the dividends, and

2. All of its gross income from all sources is effectively connected with the conduct of a trade or business within the U.S.

Lines 1, 2, 3, 4, and 5, Column (c)

Dividends received on debt-financed stock that are reported on line 2, column (a) are not entitled to the full 85% dividends-received deduction. Instead, the 85% deduction is reduced by a percentage that is related to the amount of debt incurred to acquire the stock. See section 246A. A schedule showing how the dividends-received deduction on debt-financed stock (amount on line 2, column (c)) was figured must be attached to Form 1120.

A small business investment company operating under the Small Business Investment Act of 1958 may deduct 100% of dividends received from domestic corporations subject to income tax. (Section 243(a)(2).)

No deduction is allowed under section 243 for a dividend from an IC-DISC or former DISC (as defined in section 992(a)) to the extent the dividend:

1. Is paid out of the corporation's accumulated IC-DISC income or previously taxed income, or

2. Is a deemed distribution under section 995 (b)(1).

In general, no dividends-received deduction will be allowed on any share of stock:

1. That is disposed of if the corporation held it 45 days or less, or

2. To the extent the corporation is under an obligation to make related payments for substantially similar or related property.

Line 6, Column (c)

Limitation on dividends-received deduction. Line 6 of column (c) may not be more than 85% of the difference between line 28, page 1, Form 1120, and line 7 of column (c). For this purpose, compute line 28 (Form 1120) without regard to any adjustment under section 1059, and without regard to any capital loss carryback to the tax year under section 1212(a)(1).

In a year in which a net operating loss occurs, this 85% limitation does not apply even if the loss is created by the dividends-received deduction. (See sections 172(d) and 246(b).)

For a small business investment company, the dividends-received deduction of 100% included in line 6 of column (c) is not subject to the overall 85% limitation. The 100% dividends-received deduction under section 245(c)(1) for dividends received from a FSC included in line 6 of column (c) is not subject to the overall 85% limitation.

Financial institutions should see section 596 for the special limitation on the dividends-received deduction.

Line 7, Columns (a) and (c)

Enter only those dividends that are subject to the elective provisions of section 243(b) and that are entitled to the 100%

dividends-received deduction under section 243(a)(3). Corporations making this election are subject to the provisions of section 1561.

Line 8, Column (a)

Enter foreign dividends not reportable on lines 4 and 5 of column (a). Exclude distributions of amounts constructively taxed in the current year or in prior years under subpart F (sections 951 through 964).

Line 9, Column (a)

Include income constructively received from controlled foreign corporations under subpart F. This amount should equal the total of amounts reported on Schedule J, Form(s) 5471.

Line 10, Column (a)

Include gross-up for taxes deemed paid under sections 902 and 960.

Line 11, Column (a)

Enter taxable distributions from an IC-DISC or former DISC that are designated as not being eligible for the 85% deduction.

Line 12, Column (a)

Include the following:

1. Dividends (other than capital gain dividends and exempt interest dividends) that are received from regulated investment companies and that are not subject to the 85% deduction.

2. Dividends from tax-exempt organizations.

3. Dividends (other than capital gain dividends) received from a real estate investment trust which, for the tax year of the trust in which the dividends are paid, qualify under sections 856 through 860.

4. Dividends not eligible for a dividends-received deduction because of the holding period of the stock or an obligation to make corresponding payments with respect to similar stock.

5. Any other taxable dividend income not properly reported above (including distributions under section 934(e)(3) or 936(h)(4)). If patronage dividends or per-unit retain allocations are included in Schedule C, line 12, column (a), identify the total of these amounts in a schedule attached to Form 1120.

Line 13, Column (c)

Deduction for dividends paid on certain preferred stock of public utilities. Section 247 allows public utilities a deduction of 30.435% of the lesser of:

1. Dividends paid on their preferred stock during the tax year, or

2. Taxable income computed without regard to this deduction.

In a year in which a net operating loss occurs, compute the deduction without regard to section 247(a)(1)(B). (See section 172(d).)

Tax Computation

A corporation that files Form 1120-A or Form 1120 will compute its tax on its taxable income as follows (members of a controlled group should see the instructions below for Lines 1 and 2 under heading **B.**):

If its taxable income (line 30, Form 1120, or line 26, Form 1120-A) on page 1 is:		Its tax is:	
Over—	But not over—		Of the amount over—
0	$25,000	**15%**	0
$25,000	50,000	**$3,750 + 18%**	$25,000
50,000	75,000	**8,250 + 30%**	50,000
75,000	100,000	**15,750 + 40%**	75,000
100,000	.....	**25,750 + 46%**	100,000

Additional Tax. If a corporation's taxable income exceeds $1,000,000, the total tax imposed under section 11 (see the table above) is increased by the lesser of: 5% of the excess over $1,000,000, or $20,250.

Alternative Tax. If the alternative tax does not apply, enter on line 1, Part I, Form 1120-A, or line 3, Schedule J, Form 1120, the amount computed above. If the alternative tax applies, see Schedule D (Form 1120).

(Personal holding companies—see instructions for line 7, Schedule J, Form 1120, before figuring tax. **Note:** Generally, personal holding companies that qualify as regulated investment companies are taxed at the highest corporate rate (46%) on their undistributed taxable income (see section 852).)

A. Form 1120-A, Part I, Page 2

Line 2

General business credit. This credit is made up of the sum of the following credits:

Investment credit. If the corporation invested in certain types of trade or business property, or qualified energy property, it may be able to take the investment credit, or the energy investment credit, or both credits. Use **Form 3468**, Computation of Investment Credit, to figure these credits.

Jobs credit. The jobs credit, if elected, is allowed for hiring members of targeted groups during the tax year. See **Form 5884**, Jobs Credit, for definitions, special rules, and limitations. Also see **Publication 906**, Jobs and Research Credits.

Do not take an expense deduction for the part of the wages or salaries paid or incurred which is equal to the amount of the jobs credit (determined without regard to the limitation based on the tax (section 38(c))).

Any WIN credit carryover is claimed on **Form 3800**, General Business Credit. See the instructions for Form 3800 for more information.

Alcohol fuel credit. A corporation may be able to take a credit for alcohol used as fuel. Use **Form 6478**, Credit for Alcohol Used As Fuel, to figure the credit.

Employee stock ownership plan credit. Corporations may take a tax credit equal to the value of employer stock (or the amount of cash used to buy stock) that they contribute to a tax credit employee stock ownership plan (ESOP). See **Form 8007**, Credit for Employee Stock Ownership Plan, for definitions, limitations and the computation of the credit.

Form 3800. Enter on the appropriate line of the corporate tax return the amount of the credit from **Form 3800**, General Business Credit, and check the boxes indicating which forms are attached to the return. If the corporation is claiming only one of the above credits, DO NOT complete Form 3800. Instead, check the appropriate box and attach the form for which the credit is being taken. However, if the corporation has a carryforward or carryback of any of these credits, it must use Form 3800.

Line 4

Tax from recomputing prior-year investment credit. If property is disposed of or ceases to be qualified property before the end of the life-years used in computing the the regular or energy investment credit, there may be a recapture of the credit. See **Form 4255,** Recapture of Investment Credit.

Line 5

Minimum tax. Attach **Form 4626,** Computation of Minimum Tax-Corporations, if the corporation has tax preference items in excess of $10,000, OR if there is any minimum tax liability deferred from a prior tax year.

B. Form 1120, Schedule J

Lines 1 and 2

Members of a controlled group, as defined in section 1563, are entitled to only one $25,000 amount in each taxable income bracket.

When a controlled group adopts or later amends an apportionment plan, each member must attach to its tax return a copy of its consent to this plan. The copy (or an attached statement) must show the part of the $25,000 amount in each taxable income bracket apportioned to that member. There are other requirements as well. See Regulations section 1.1561-3(b) for them and for the time and manner of making the consent.

Note: *Members of a controlled group of corporations are treated as one corporation for purposes of figuring the applicability of the additional tax that must be paid by corporations with taxable income in excess of $1,000,000. If the additional tax applies, each member of the controlled group will pay that tax based on the portion of the $25,000 amount that is used in each taxable income bracket to reduce that member's tax. (See section 1561(a).) Each member of the group must attach to its tax return a schedule that shows the taxable income of the entire group as well as how its portion of the additional tax was figured.*

Equal Apportionment Plan. If no apportionment plan is adopted, the members of the controlled group must divide the $25,000 in each taxable income bracket equally among themselves. For example, controlled group AB consists of corporation A and corporation B. They do not elect an apportionment plan. Therefore, corporation A is entitled to $12,500 (one-half of $25,000) in each taxable income bracket. Corporation B is also entitled to $12,500 in each taxable income bracket.

Unequal Apportionment Plan. Members of a controlled group may elect an unequal apportionment plan and divide the $25,000 in each taxable income bracket as they wish. There is no need for consistency between taxable income brackets. Any member of the controlled group may be entitled to all, some, or none of the $25,000 in a taxable income bracket. (But the total amount for all members of the controlled group cannot be more than $25,000 in any taxable income bracket.)

Each member of a controlled group must compute the tax as follows:

1. Enter taxable income (line 30, page 1, Form 1120) . . . . ________
2. Enter line 1 or the corporation's portion of the first $25,000 taxable income bracket, whichever is less . . . ________
3. Subtract line 2 from line 1 . . . . ________
4. Enter line 3 or the corporation's portion of the second $25,000 taxable income bracket, whichever is less . . . . ________
5. Subtract line 4 from line 3. . . . . ________
6. Enter line 5 or the corporation's portion of the third $25,000 taxable income bracket, whichever is less. . . . ________
7. Subtract line 6 from line 5. . . . . ________
8. Enter line 7 or the corporation's portion of the fourth $25,000 taxable income bracket, whichever is less . . . . ________
9. Subtract line 8 from line 7 . . . . ________
10. 15% of line 2 . . . . . ________
11. 18% of line 4 . . . . . ________
12. 30% of line 6 . . . . . ________
13. 40% of line 8 . . . . . ________
14. 46% of line 9 . . . . . ________
15. If the taxable income (line 1 above) of the controlled group exceeds $1,000,000, enter the portion of the lesser of: 5% of the excess over $1,000,000, or $20,250, that this member must pay . . . ________
16. Total of lines 10 through 15. Enter this amount on line 3 of Form 1120, Schedule J ________

Note: *If the alternative tax applies, do the following:*

1. Complete lines 1 and 2 of Schedule J;

2. On line 1 above, instead of entering amount from line 30, page 1, Form 1120, enter amount from line 14, Schedule D;

3. Complete lines 2 through 16 above; and

4. Enter amount from line 16 above on line 15 of Schedule D and complete balance of Schedule D.

Line 3

Bank Holding Companies. Section 6158 provides that a bank holding company may elect to pay in installments the tax attributable to the sale of certain assets whose divestiture is certified by the Board of Governors of the Federal Reserve System. If the bank holding company chooses this election, attach a statement showing the tax computation and the amount of the installment paid with this return. Also, in the right hand margin next to line 3, Schedule J, enter the amount of the installment payment followed by the words "computed under section 6158." If an election under section 1103(g) or (h) applies, enter the words "section 1103(g) election" or "section 1103(h) election," as the case may be.

Mutual savings bank conducting life insurance business. The tax under section 594 consists of the sum of: 1. a partial tax computed on Form 1120 on the taxable income of the bank determined without regard to income or deductions allocable to the life insurance department, and **2**. a partial tax on the taxable income computed on Form 1120L of the life insurance department. Enter the combined tax on line 3 of Schedule J, Form 1120. Attach Form 1120L as a schedule and identify it as such.

Line 4a

Foreign tax credit. See **Form 1118,** Computation of Foreign Tax Credit-Corporations, for an explanation of when a corporation can take this credit for payment of income tax to a foreign country.

Line 4b

Possessions tax credit. See **Form 5712,** Election To be Treated as a Possessions Corporation Under Section 936, for rules on how to elect to claim the possessions tax credit (section 936). Compute the credit on **Form 5735**, Computation of Possessions Corporation Tax Credit Allowed Under Section 936.

Line 4c

Orphan drug credit. See section 28 and **Form 6765**, Credit for Increasing Research Activities (or for claiming the orphan drug credit), for an explanation of when a corporation can take this credit as well as how it is figured.

Line 4d

Credit for fuel produced from a nonconventional source. A credit is allowed for the sale of qualified fuels produced from a nonconventional source. Section 29 contains a definition of qualified fuels, provisions for figuring the credit, and other special rules. Attach a separate schedule to the return showing the computation of the credit.

Line 4e

Research credit. Certain amounts paid or incurred for increasing qualified research expenses in carrying on a trade or business are allowed as a credit. Use Form 6765, to figure the credit.

Line 4f

General business credit. See the earlier instructions for Form 1120-A, Line 2 under the heading, **Tax Computation.**

Line 7

Personal holding company tax. A corporation is taxed as a personal holding company under section 542 if:

- At least 60% of its adjusted ordinary gross income, defined in section 543(b)(2), for the tax year is personal holding company income as defined in section 543(a), and
- At any time during the last half of the tax year more than 50% in value of its outstanding stock is owned, directly or indirectly, by not more than 5 individuals.

Use **Schedule PH (Form 1120)**, Computation of U.S. Personal Holding Company Tax, to figure this tax.

Note: *Generally, personal holding companies that qualify as regulated investment companies are taxed at the highest corporate rate (46%) on their undistributed taxable income (see section 852).*

Line 8

Tax from recomputing prior-year investment credit. See the earlier instructions for Form 1120-A, Line 4, under the heading **Tax Computation.**

Line 9

Minimum Tax. See the earlier instructions for Form 1120-A, Line 5, under the heading **Tax Computation.**

Line 10

Real estate investment trust excise tax. An excise tax is imposed on certain real estate investment trust taxable income not distributed during the tax year (section 4981). Attach a copy of the tax computation and include the amount of tax in the total for line 10, Schedule J, Form 1120. Write in the margin, next to the entry on line 10, the amount of the tax and identify it as "section 4981 tax."

Schedule M-2 (Form 1120 only)
Unappropriated Retained Earnings

Line 5

Distributions under the Bank Holding Company Act. If an election under section 1103(g) or (h) applies to a section 1101 distribution, the bank holding company making the distribution must enter the words "section 1103(g) election" or "section 1103(h) election," as the case may be, in the right-hand margin next to line 5, Schedule M-2, Form 1120.

Codes for Principal Business Activity

These industry titles and definitions are based, in general, on the Standard Industrial Classification System authorized by Regulatory and Statistical Analysis Division, Office of Information and Regulatory Affairs, Office of Management and Budget, to classify enterprises by type of activity in which they are engaged.

Using the list below, enter on page 1, under C, the code number for the specific industry group from which the largest percentage of "total receipts" is derived. "Total receipts" means gross receipts (line 1a, page 1) plus all other income (lines 4 through 10, page 1).

On page 3, under J, Form 1120 or items A and B, page 1, Form 1120-A, state the principal business activity and principal product or service that account for the largest percentage of total receipts. For example, if the principal business activity is "Grain mill products," the principal product or service may be "Cereal preparations."

If, as its principal business activity, the corporation (1) purchases raw materials, (2) subcontracts out for labor to make a finished product from the raw materials, and (3) retains title to the goods, the corporation is considered to be a manufacturer and must enter one of the codes (2010-3998) under "Manufacturing."

Agriculture, Forestry, and Fishing

Code	
0400	Agricultural production
0600	Agricultural services (except veterinarians), forestry, fishing, hunting, and trapping

Mining

Metal mining

1010	Iron ores
1070	Copper, lead and zinc, gold and silver ores
1098	Other metal mining
1150	Coal mining

Oil and gas extraction

1330	Crude petroleum, natural gas, and natural gas liquids
1380	Oil and gas field services

Nonmetallic minerals, except fuels

1430	Dimension, crushed and broken stone; sand and gravel
1498	Other nonmetallic minerals, except fuels

Construction

General building contractors and operative builders

1510	General building contractors
1531	Operative builders
1600	**Heavy construction contractors**

Special trade contractors

1711	Plumbing, heating, and air conditioning
1731	Electrical work
1798	Other special trade contractors

Manufacturing

Food and kindred products

2010	Meat products
2020	Dairy products
2030	Preserved fruits and vegetables
2040	Grain mill products
2050	Bakery products
2060	Sugar and confectionary products
2081	Malt liquors and malt
2088	Alcoholic beverages, except malt liquors and malt
2089	Bottled soft drinks, and flavorings
2096	Other food and kindred products
2100	**Tobacco manufacturers**

Textile mill products

2228	Weaving mills and textile finishing
2250	Knitting mills
2298	Other textile mill products

Apparel and other textile products

2315	Men's and boys' clothing
2345	Women's and children's clothing
2388	Other apparel and accessories
2390	Miscellaneous fabricated textile products

Lumber and wood products

2415	Logging, sawmills, and planing mills
2430	Millwork, plywood, and related products
2498	Other wood products, including wood buildings and mobile homes
2500	**Furniture and fixtures**

Code

Paper and allied products

2625	Pulp, paper, and board mills
2699	Other paper products

Printing and publishing

2710	Newspapers
2720	Periodicals
2735	Books, greeting cards, and miscellaneous publishing
2799	Commercial and other printing, and printing trade services

Chemicals and allied products

2815	Industrial chemicals, plastics materials and synthetics
2830	Drugs
2840	Soap, cleaners, and toilet goods
2850	Paints and allied products
2898	Agricultural and other chemical products

Petroleum refining and related industries (including those integrated with extraction)

2910	Petroleum refining (including integrated)
2998	Other petroleum and coal products

Rubber and misc. plastics products

3050	Rubber products, plastics footwear, hose and belting
3070	Misc. plastics products

Leather and leather products

3140	Footwear, except rubber
3198	Other leather and leather products

Stone, clay, and glass products

3225	Glass products
3240	Cement, hydraulic
3270	Concrete, gypsum, and plaster products
3298	Other nonmetallic mineral products

Primary metal industries

3370	Ferrous metal industries; misc. primary metal products
3380	Nonferrous metal industries

Fabricated metal products

3410	Metal cans and shipping containers
3428	Cutlery, hand tools, and hardware; screw machine products, bolts, and similar products
3430	Plumbing and heating, except electric and warm air
3440	Fabricated structural metal products
3460	Metal forgings and stampings
3470	Coating, engraving, and allied services
3480	Ordnance and accessories, except vehicles and guided missiles
3490	Misc. fabricated metal products

Machinery, except electrical

3520	Farm machinery
3530	Construction and related machinery
3540	Metalworking machinery
3550	Special industry machinery
3560	General industrial machinery
3570	Office, computing, and accounting machines
3598	Other machinery except electrical

Code

Electrical and electronic equipment

3630	Household appliances
3665	Radio, television, and communication equipment
3670	Electronic components and accessories
3698	Other electrical equipment
3710	**Motor vehicles and equipment**

Transportation equipment, except motor vehicles

3725	Aircraft, guided missiles and parts
3730	Ship and boat building and repairing
3798	Other transportation equipment, except motor vehicles

Instruments and related products

3815	Scientific instruments and measuring devices; watches and clocks
3845	Optical, medical, and ophthalmic goods
3860	Photographic equipment and supplies
3998	**Other manufacturing products**

Transportation and Public Utilities

Transportation

4000	Railroad transportation
4100	Local and interurban passenger transit
4200	Trucking and warehousing
4400	Water transportation
4500	Transportation by air
4600	Pipe lines, except natural gas
4700	Miscellaneous transportation services

Communication

4825	Telephone, telegraph, and other communication services
4830	Radio and television broadcasting

Electric, gas, and sanitary services

4910	Electric services
4920	Gas production and distribution
4930	Combination utility services
4990	Water supply and other sanitary services

Wholesale Trade

Durable

5008	Machinery, equipment, and supplies
5010	Motor vehicles and automotive equipment
5020	Furniture and home furnishings
5030	Lumber and construction materials
5040	Sporting, recreational, photographic, and hobby goods, toys and supplies
5050	Metals and minerals, except petroleum and scrap
5060	Electrical goods
5070	Hardware, plumbing and heating equipment and supplies
5098	Other durable goods

Nondurable

5110	Paper and paper products
5129	Drugs, drug proprietaries, and druggists' sundries
5130	Apparel, piece goods, and notions
5140	Groceries and related products
5150	Farm-product raw materials
5160	Chemicals and allied products
5170	Petroleum and petroleum products
5180	Alcoholic beverages
5190	Misc. nondurable goods

Retail Trade

Building materials, garden supplies, and mobile home dealers

5220	Building materials dealers
5251	Hardware stores
5265	Garden supplies and mobile home dealers
5300	**General merchandise stores**

Food stores:

5410	Grocery stores
5490	Other food stores

Automotive dealers and service stations

5515	Motor vehicle dealers
5541	Gasoline service stations
5598	Other automotive dealers
5600	**Apparel and accessory stores**
5700	**Furniture and home furnishings stores**
5800	**Eating and drinking places**

Code

Misc. retail stores

5912	Drug stores and proprietary stores
5921	Liquor store.
5995	Other retail stores

Finance, Insurance, and Real Estate

Banking

6030	Mutual savings banks
6060	Bank holding companies
6090	Banks, except mutual savings banks and bank holding companies

Credit agencies other than banks

6120	Savings and loan associations
6140	Personal credit institutions
6150	Business credit institutions
6199	Other credit agencies

Security, commodity brokers and services

6210	Security brokers, dealers, and flotation companies
6299	Commodity contracts brokers and dealers; security and commodity exchanges; and allied services

Insurance

6355	Life insurance
6356	Mutual insurance, except life or marine and certain fire or flood insurance companies
6359	Other insurance companies
6411	Insurance agents, brokers, and service

Real estate

6511	Real estate operators and lessors of buildings
6516	Lessors of mining, oil, and similar property
6518	Lessors of railroad property and other real property
6530	Condominium management and cooperative housing associations
6550	Subdividers and developers
6599	Other real estate

Holding and other investment companies, except bank holding companies

6742	Regulated investment companies
6743	Real estate investment trusts
6744	Small business investment companies
6749	Other holding and investment companies except bank holding companies

Services

7000	**Hotels and other lodging places**
7200	**Personal services**

Business services

7310	Advertising
7389	Business services, except advertising

Auto repair; misc. repair services

7500	Auto repair and services
7600	Misc. repair services

Amusement and recreation services

7812	Motion picture production, distribution, and services
7830	Motion picture theaters
7900	Amusement and recreation services, except motion pictures

Other services

8015	Offices of physicians, including osteopathic physicians
8021	Offices of dentists
8040	Offices of other health practitioners
8050	Nursing and personal care facilities
8060	Hospitals
8071	Medical laboratories
8099	Other medical services
8111	Legal services
8200	Educational services
8300	Social services
8600	Membership organizations
8911	Architectural and engineering services
8930	Accounting, auditing, and bookkeeping
8980	Miscellaneous services (including veterinarians)

SCHEDULE D
(Form 1120)
Department of the Treasury
Internal Revenue Service

Capital Gains and Losses

To be filed with Forms 1120, 1120-A, 1120-IC-DISC, 1120F, 1120-FSC, 1120-H, 1120L, 1120M, 1120-POL, 990-C, and certain Forms 990-T

OMB No. 1545-0123

1985

Name

Employer identification number

Part I Short-term Capital Gains and Losses—Assets Held Six Months or Less (one year or less if acquired before 6-23-84)

	(a) Kind of property and description (Example, 100 shares of "Z" Co.)	(b). Date acquired (mo., day, yr.)	(c). Date sold (mo., day, yr.)	(d) Gross sales price	(e) Cost or other basis, plus expense of sale	(f) Gain or (loss) ((d) less (e))
1						

2	Short-term capital gain from installment sales from Form 6252, line 22 or 30	2	
3	Unused capital loss carryover (attach computation)	3	( )
4	Net short-term capital gain or (loss)	4	

Part II Long-term Capital Gains and Losses—Assets Held More Than Six Months (more than one year if acquired before 6-23-84)

5	Enter gain from Form 4797, line 6 or 8	5	

6						

7	Long-term capital gain from installment sales from Form 6252, line 22 or 30	7	
8	Net long-term capital gain or (loss)	8	

Part III Summary of Parts I and II

9	Enter excess of net short-term capital gain (line 4) over net long-term capital loss (line 8)	9	
10	Net capital gain. Enter excess of net long-term capital gain (line 8) over net short-term capital loss (line 4).	10	
11	Total of lines 9 and 10. Enter here and on Form 1120, line 8, page 1; or the proper line on other returns.	11	
	Note: *If losses exceed gains, see instructions on capital losses for explanation of capital loss carrybacks.*		▨

Part IV Alternative Tax Computation (Forms 1120-H and 1120-IC-DISC filers omit Part IV)

12	Taxable income. Enter the amount from { a Form 1120, line 30, page 1. . . . . b Others—Enter amount from the proper line of other returns . . . . }	12	
13	Net capital gain from line 10	13	
14	Subtract line 13 from line 12	14	
15	Partial tax. Compute the tax on line 14 as follows { a Form 1120—In accordance with the instructions for Forms 1120 and 1120-A, Tax Computation . . . . b Others—In accordance with the tax computation instructions for applicable return . . . . } . . .	15	
16	28% of line 13	16	
17	Alternative tax—total of lines 15 and 16. If less than amount of tax figured by regular method, enter here and on Form 1120, Schedule J, line 3; or the proper line on other returns. Also check box for Schedule D.	17	

For Paperwork Reduction Act Notice, see page 1 of the Instructions for Forms 1120 and 1120–A.

Instructions

(Section references are to the Internal Revenue Code.)

Purpose of Form

Schedule D should be used by a taxpayer who files either Forms 1120, 1120-A, 1120-IC-DISC, 1120F, 1120-FSC, 1120-H, 1120L, 1120M, 1120-POL, 990-C, or certain Forms 990-T, to report sales or exchanges of capital assets. Sales or exchanges of property other than capital assets, including property used in a trade or business, involuntary conversions (other than casualties or thefts), gain from the disposition of interest in oil, gas, or geothermal property, and the section 291 adjustment to section 1250 gains should be reported on **Form 4797**, Gains and Losses From Sales or Exchanges of Assets Used in a Trade or Business and Involuntary Conversions. See the instructions for Form 4797 for more information.

If property is involuntarily converted because of a casualty or theft, use **Form 4684**, Casualties and Thefts.

Parts I and II

Generally, a corporation should report the sales and exchanges, including "like-kind" exchanges, even though there is no gain or loss. No loss is allowed for a wash sale of stock or securities or from a transaction between related persons. (Sections 1091 and 267.)

In Part I report the sale or exchange of capital assets held six months or less (one year or less for acquisitions before June 23, 1984). In Part II report the sale or exchange of capital assets held more than six months (more than one year for acquisitions before June 23, 1984).

What are Capital Assets.—Each item of property the corporation held (whether or not connected with its trade or business) is a capital asset except:

1. Assets that can be inventoried or property held mainly for sale to customers.
2. Depreciable or real property used in the trade or business.
3. Certain copyrights, literary, musical, or artistic compositions, letters or memorandums, or similar property.
4. Accounts or notes receivable acquired in the ordinary course of trade or business for services rendered or from the sale of property described in 1. above.
5. A U.S. Government publication (including the Congressional Record), received from the Government or any of its agencies in a manner other than by buying it at the price offered for public sale, which is held by a taxpayer who received the publication or by a second taxpayer in whose hands the basis of the publication is determined, for purposes of determining gain from a sale or exchange, by referring to its basis in the hands of the first taxpayer.

Exchange of "like-kind" property.—Report the exchange of "like-kind" property on Schedule D or on Form 4797, whichever applies. The corporation must report it even though no gain or loss is recognized when business or investment property is exchanged for property of "like-kind." (This does not include stock in trade or other property held primarily for sale. It also does not include stocks, bonds, notes, choses in action, certificates of trust or beneficial interest, other securities or evidences of indebtedness or interest, or transfers made generally after March 31, 1984, for interests in a partnership.)

If Schedule D is used, identify in column (a), the property disposed of. Enter the date it was acquired in column (b), and the date it was exchanged in column (c). Write "like-kind exchange" in column (d). Enter the cost or other basis in column (e). Enter zero in column (f).

Special Rules for the Treatment of Certain Gains and Losses

Note: *For more information, get* ***Publication 544****, Sales and Other Dispositions of Assets, and* ***Publication 542****, Tax Information on Corporations.*

- **Gains and losses on section 1256 contracts and straddles.**—Use **Form 6781**, Gains and Losses From Section 1256 Contracts and Straddles, to report gains and losses from section 1256 contracts and straddles.
- **Gain or loss on certain short-term Federal, State, and municipal obligations.**—Such obligations are treated as capital assets in determining gain or loss. On any gain realized, a portion is treated as ordinary income and the balance is considered as a short-term capital gain. See section 1271.
- **Gain from installment sales.**—If property is sold at a gain this year and the corporation is to receive any payment in a later tax year, it must use the installment method and file **Form 6252**, Computation of Installment Sale Income. Also use Form 6252 if a payment is received in 1985 from a sale made in an earlier year on the installment basis.

However, the corporation may elect out of the installment method by doing the following on a timely filed return (including extensions):

1. Report the full amount of the sale on Schedule D.
2. If the corporation received a note or other obligation and is reporting it at less than face value (including all contingent obligations), state that fact in the margin and give the percentage of valuation.

- **Gain or loss on an option to buy or sell property.**—See sections 1032 and 1234 for the rules that apply to a purchaser or grantor of an option.
- **Gain or loss from a short sale of property.**—Report the gain or loss to the extent that the property used to close the short sale is considered a capital asset in the hands of the taxpayer.
- **Gains and losses of foreign corporations from the disposition of investment in United States real property.**—Foreign corporations are required to report gains and losses from the disposition of U.S. real property interests. See section 897 for details.
- **Gains on certain insurance property.**—Form 1120L filers with gains on property held on December 31, 1958, and certain substituted property acquired after 1958 should see section 818(c).
- **Loss from the sale or exchange of an insurance company's capital assets.**—Report the loss if the assets were sold or exchanged to get funds to meet abnormal insurance losses. If an insurance company is taxed under section 831 and is reporting a loss on Schedule D, also attach a schedule similar to Schedule C of Form 1120M. If an insurance company is taxed under section 821, all references to line numbers on Form 1120 are to be considered as references to the appropriate line on Form 1120M.
- **Loss from securities that are capital assets that become worthless during the year.**—Except for securities held by a bank, treat the loss as a capital loss as of the last day of the tax year. (See section 582 for the rules on the treatment of securities held by a bank.)
- **Nonrecognition of gain on sale of stock to an ESOP.**—See section 1042 for rules under which a taxpayer may elect not to recognize gain from the sale of certain stock to an employee stock ownership plan (ESOP).
- **Disposition of market discount bonds.**—See section 1276 for rules on the disposition of any market discount bonds that were issued after July 18, 1984.

How to Determine the Cost or Other Basis of the Property

In determining gain or loss, the basis of property will generally be its cost (section 1012). The exceptions to the general rule are provided in sections contained in subchapters C, K, O, and P of the Code. For example, if the corporation acquired the property by dividend, liquidation of a corporation, transfer from a shareholder, reorganization, contribution or gift, bequest, bankruptcy, tax-free exchange, involuntary conversion, or wash sale of stock, see sections 301 (or 1059), 334, 362 (or 358), 1015, 1014, 372 (or 374), 1031, 1033, and 1091, respectively. Attach an explanation if the corporation uses a basis other than actual cash cost of the property.

If the corporation is allowed a charitable contribution deduction because it sold property to a charitable organization, figure the adjusted basis for determining gain from the sale by dividing the amount realized by the fair market value and multiplying that result by the adjusted basis.

Capital Losses.—The amount of capital losses allowed may not be more than capital gains. A net capital loss may be carried back 3 years and forward 5 years as a short-term capital loss. Carry back a capital loss to the extent it does not increase or produce a net operating loss in the tax year to which it is carried. Foreign expropriation capital losses may not be carried back, but may be carried forward 10 years instead of 5. A net capital loss for a regulated investment company may be carried forward 8 years instead of 5.

At risk limitations (section 465).—If the corporation sold or exchanged an asset used in an activity to which the at risk rules apply, combine the gain or loss on the sale or exchange with the profit or loss from the activity. If the result is a net loss from the activity, it may be subject to the at risk rules.

Part III—Summary of Parts I and II

If the net long-term capital gain is more than the net short-term capital loss, there is a net capital gain. In that case, the corporation may want to complete Part IV to determine if the resulting alternative tax is less than the tax figured using the regular method.

Part IV—Alternative Tax Computation

- Forms 1120-H and 1120-IC-DISC filers omit Part IV.
- Form 1120L filers should see Form 1120L instructions before figuring the alternative tax.

In figuring the alternative tax, do not refigure deductions limited by the amount of taxable income (such as contributions and the special deductions in Schedule C of Form 1120).

If the alternative tax amount on line 17 is less than the tax figured by the regular method, enter the amount of alternative tax on Form 1120, Schedule J, line 3; or the proper line on other returns. Also check the box for Schedule D.

If there is a net capital gain, the corporation may be liable for minimum tax. See **Form 4626**, Computation of Minimum Tax—Corporations, for more information.

Form **1120-A**

Department of the Treasury
Internal Revenue Service

U.S. Short-Form Corporation Income Tax Return

To see if you qualify to file Form 1120-A, see Instructions.

1234

OMB No. 1545-0890

1985

For calendar 1985 or tax year beginning ________, 1985, ending ________, 19____

▶ For Paperwork Reduction Act Notice, see page 1 of the Instructions.

See Instructions for list of principal business:
A Activity ________
B Product or service ________
C Code ________

Use IRS label. Otherwise please type or machine print:
Name ________
Number and street ________
City or town, state, and ZIP code ________

D Employer identification number (EIN) ________
E Date incorporated ________
F Total assets (see Specific Instructions) Dollars $ ________ Cents ____

G Check method of accounting: (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (specify) ▶ ________

H Check box if there has been a change in address from the previous year . . . . . ▶ ☐

Income	1	a Gross receipts or sales ________ b Less returns and allowances ________ Balance ▶	1c
	2	Cost of goods sold and/or operations (see instructions)	2
	3	Gross profit (line 1c less line 2)	3
	4	Domestic corporation dividends subject to the 85% deduction	4
	5	Interest	5
	6	Gross rents	6
	7	Gross royalties	7
	8	Capital gain net income (attach separate Schedule D (Form 1120))	8
	9	Net gain or (loss) from Form 4797, line 17, Part II (attach Form 4797)	9
	10	Other income (see instructions)	10
	11	TOTAL income—Add lines 3 through 10	11
Deductions	12	Compensation of officers (see instructions)	12
	13	a Salaries and wages ________ b Less jobs credit ________ Balance ▶	13c
	14	Repairs	14
	15	Bad debts (If reserve method is used, answer Question K on page 2)	15
	16	Rents	16
	17	Taxes	17
	18	Interest	18
	19	Contributions **(see instructions for 10% limitation)**	19
	20	Depreciation (attach Form 4562) 20 ________	
	21	Less depreciation claimed elsewhere on return 21a ________	21b
	22	Other deductions (attach schedule)	22
	23	TOTAL deductions—Add lines 12 through 22	23
	24	Taxable income before net operating loss deduction and special deductions (line 11 less line 23)	24
	25	**Less:** a Net operating loss deduction (see instructions) 25a ________ b Special deductions (see instructions) 25b ________	25c
Tax and Payments	26	Taxable income (line 24 less line 25c)	26
	27	TOTAL TAX (from Part I, line 6 on page 2)	27
	28	**Payments:** a 1984 overpayment allowed as a credit b 1985 estimated tax payments c Less 1985 refund applied for on Form 4466 ( ) d Tax deposited with Form 7004 e Credit from regulated investment companies (attach Form 2439) f Credit for Federal tax on gasoline and special fuels (attach Form 4136)	28
	29	Enter any **PENALTY** for underpayment of estimated tax—Check ▶ ☐ if Form 2220 is attached	29
	30	**TAX DUE**—If the total of lines 27 and 29 is larger than line 28, enter AMOUNT OWED	30
	31	**OVERPAYMENT**—If line 28 is larger than the total of lines 27 and 29, enter AMOUNT OVERPAID	31
	32	Enter amount of line 31 you want: **Credited to 1986 estimated tax ▶** ________ **Refunded ▶**	32

Please Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

▶ Signature of officer ________ Date ________ ▶ Title ________

Paid Preparer's Use Only

Preparer's signature ▶ ________ Date ________ Check if self-employed ▶ ☐ Preparer's social security number ________

Firm's name (or yours, if self-employed) and address ▶ ________ E.I. No. ▶ ________ ZIP code ▶ ________

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Form 1120-A (1985) **Part I** **Tax Computation (See Instructions)** Page 2 **Enter EIN ▶**

1 Income tax (see instructions to figure the tax, enter lesser of this tax or alternative tax from Schedule D). Check if from Schedule D ▶ ☐	1	
2 General business credit. Check if from ☐ Form 3800 ☐ Form 3468 ☐ Form 5884 ☐ Form 6478 ☐ Form 8007	2	
3 Line 1 less line 2	3	
4 Tax from recomputing prior-year investment credit (attach Form 4255)	4	
5 Minimum tax on tax preference items (see instructions—attach Form 4626)	5	
6 Total tax—Add lines 3 through 5. Enter here and on line 27, page 1	6	

Additional Information (See instruction F)

I Was a deduction taken for expenses connected with:

(1) An entertainment facility (boat, resort, ranch, etc.)? Yes ☐ No ☐

(2) Employees' families at conventions or meetings? Yes ☐ No ☐

J Did any individual, partnership, estate or trust at the end of the tax year own, directly or indirectly, 50% or more of the corporation's voting stock? (For rules of attribution, see section 267(c).) If "Yes," complete (1) and (2) Yes ☐ No ☐

(1) Attach a schedule showing name, address, and identifying number.

(2) Enter "highest amount owed;" include loans and accounts receivable/payable:

(a) Enter highest amount owed by the corporation to such owner during the year ▶

(b) Enter highest amount owed to the corporation by such owner during the year ▶

K If the reserve method is used for bad debts, complete (1) and (2) for the current year:

(1) Amount added to the reserve account:

(a) Current year's provision ▶

(b) Recoveries ▶

(2) Amount charged against the reserve account ▶

L If an amount for cost of goods sold and/or operations is entered on line 2, page 1, complete (1) and (2):

(1) Purchases ▶

(2) Other costs (attach schedule) ▶

M At any time during the tax year, did you have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? (See instruction F for filing requirements for Form TD F 90-22.1.) Yes ☐ No ☐

If "Yes," write in the name of the foreign country

▶

N During this tax year was any part of your accounting/tax records maintained on a computerized system? Yes ☐ No ☐

O Enter amount of cash distributions and the book value of property (other than cash) distributions made in this tax year ▶

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Part II **Balance Sheets**

		(a) Beginning of tax year		▨	(b) End of tax year	
Assets	**1** Cash			▨		
	2 Trade notes and accounts receivable			▨		
	a Less allowance for bad debts	(	)	▨		)
	3 Inventories			▨		
	4 Federal and State government obligations			▨		
	5 Other current assets (attach schedule)			▨		
	6 Loans to stockholders			▨		
	7 Mortgage and real estate loans			▨		
	8 Depreciable, depletable, and intangible assets			▨		
	a Less accumulated depreciation, depletion, and amortization	(	)	▨	(	)
	9 Land (net of any amortization)			▨		
	10 Other assets (attach schedule)			▨		
	11 Total assets			▨		
Liabilities and Stockholders' Equity	**12** Accounts payable			▨		
	13 Other current liabilities (attach schedule)			▨		
	14 Loans from stockholders			▨		
	15 Mortgages, notes, bonds payable			▨		
	16 Other liabilities (attach schedule)			▨		
	17 Capital stock (Preferred and Common stock)			▨		
	18 Paid-in or capital surplus			▨		
	19 Retained earnings			▨		
	20 Less cost of treasury stock	(	)	▨	(	)
	21 Total liabilities and stockholders' equity			▨		

Part III **Reconciliation of Income Per Books With Income Per Return (See Instructions)**

1 Enter net income per books			**5** Income recorded on books this year not included in this return (itemize)	▨	▨
2 Federal income tax			**6** Deductions in this tax return not charged against book income this year (itemize)	▨	▨
3 Income subject to tax not recorded on books this year (itemize)	▨	▨	**7** Income (line 24, page 1). Enter the sum of lines 1, 2, 3, and 4 less the sum of lines 5 and 6	▨	▨
4 Expenses recorded on books this year not deducted in this return (itemize)	▨	▨			

Form **1120S**
Department of the Treasury
Internal Revenue Service

U.S. Income Tax Return for an S Corporation

For calendar 1985 or tax year beginning ...., 1985, ending ...., 19 .....

▶ For Paperwork Reduction Act Notice, see page 1 of the instructions.

OMB No. 1545-0130

1985

A Date of election as an S corporation	Use IRS label. Otherwise, please print or type.	Name	C Employer identification number
B Business Code No. (see Specific Instructions)		Number and street	D Date incorporated
		City or town, state, and ZIP code	E Total assets (see Specific Instructions)

F. Check box if there has been a change in address from the previous year . . . . ▶ ☐ $

				Dollars	Cents
Income	1 a Gross receipts or sales .... b Less returns and allowances .... Balance ▶		1c		
	2 Cost of goods sold and/or operations (Schedule A, line 7)		2		
	3 Gross profit (subtract line 2 from line 1c)		3		
	4 Taxable interest and nonqualifying dividends		4		
	5 Gross rents		5		
	6 Gross royalties		6		
	7 Net gain or (loss) from Form 4797, line 17, Part II		7		
	8 Other income (see instructions—attach schedule)		8		
	9 TOTAL income (loss)—Combine lines 3 through 8 and enter here ▶		9		
Deductions	10 Compensation of officers		10		
	11 a Salaries and wages .... b Less jobs credit .... Balance ▶		11c		
	12 Repairs		12		
	13 Bad debts (see instructions)		13		
	14 Rents		14		
	15 Taxes		15		
	16 a Total deductible interest expense not claimed elsewhere on return (see instructions)	16a			
	b Interest expense required to be passed through to shareholders on Schedule K-1, lines 9, 13a(2) and 13a(3)	16b			
	c Subtract line 16b from line 16a		16c		
	17 a Depreciation from Form 4562 (attach Form 4562)	17a			
	b Depreciation claimed on Schedule A and elsewhere on return	17b			
	c Subtract line 17b from line 17a		17c		
	18 Depletion (**Do not deduct oil and gas depletion.** See instructions)		18		
	19 Advertising		19		
	20 Pension, profit-sharing, etc. plans		20		
	21 Employee benefit programs		21		
	22 Other deductions (attach schedule)		22		
	23 TOTAL deductions—Add lines 10 through 22 and enter here ▶		23		
	24 Ordinary income (loss)—Subtract line 23 from line 9		24		
Tax and Payments	25 Tax:				
	a Excess net passive income tax (attach schedule)	25a			
	b Tax from Schedule D (Form 1120S), Part IV	25b			
	c Add lines 25a and 25b		25c		
	26 Payments:				
	a Tax deposited with Form 7004	26a			
	b Credit for Federal tax on gasoline and special fuels (attach Form 4136)	26b			
	c Add lines 26a and 26b		26c		
	27 **TAX DUE** (subtract line 26c from line 25c). See instructions for Paying the Tax. ▶		27		
	28 **OVERPAYMENT** (subtract line 25c from line 26c) ▶		28		

Please Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

▶ Signature of officer | Date | ▶ Title

Paid Preparer's Use Only

Preparer's signature ▶	Date	Check if self-employed ▶ ☐	Preparer's social security number
Firm's name (or yours, if self-employed) and address ▶		E.I. No. ▶	
		ZIP code ▶	

Schedule A Cost of Goods Sold and/or Operations (See instructions for Schedule A)

1	Inventory at beginning of year	1		
2	Purchases	2		
3	Cost of labor	3		
4	Other costs (attach schedule)	4		
5	Total—Add lines 1 through 4	5		
6	Inventory at end of year	6		
7	Cost of goods sold and/or operations—Subtract line 6 from line 5. Enter here and on line 2, page 1	7		

8 **a** Check all methods used for valuing closing inventory:

(i) ☐ Cost

(ii) ☐ Lower of cost or market as described in Regulations section 1.471–4 (see instructions)

(iii) ☐ Writedown of "subnormal" goods as described in Regulations section 1.471–2(c) (see instructions)

(iv) ☐ Other (Specify method used and attach explanation) ▶ ____________________

b Check if the LIFO inventory method was adopted this tax year for any goods (if checked, attach Form 970) . . . . . . ☐

c If the LIFO inventory method was used for this tax year, enter percentage (or amounts) of closing inventory computed under LIFO . . . . . . **8c** ____________

d If you are engaged in manufacturing, did you value your inventory using the full absorption method (Regulations section 1.471–11)? . . . . . ☐ Yes ☐ No

e Was there any change in determining quantities, cost, or valuations between opening and closing inventory? . . . ☐ Yes ☐ No
If "Yes," attach explanation.

Additional Information Required

	Yes	No
G Did you at the end of the tax year own, directly or indirectly, 50% or more of the voting stock of a domestic corporation? (For rules of attribution, see section 267(c).)		
If "Yes," attach a schedule showing: **(1)** Name, address, and employer identification number; **(2)** Percentage owned; **(3)** Highest amount owed by you to such corporation during the year; and **(4)** Highest amount owed to you by such corporation during the year. **(Note:** *For purposes of G(3) and G(4), "highest amount owed" includes loans and accounts receivable/payable.)*	▨	▨
H Refer to the listing of Business Activity Codes and state your principal: Business activity ▶ ____________________; Product or service ▶ ____________________	▨	▨
I Were you a member of a controlled group subject to the provisions of section 1561?		
J Did you claim a deduction for expenses connected with:	▨	▨
(1) Entertainment facilities (boat, resort, ranch, etc.)?		
(2) Living accommodations (except for employees on business)?		
(3) Employees attending conventions or meetings outside the North American area? (See section 274(h).)		
(4) Employees' families at conventions or meetings?		
If "Yes," were any of these conventions or meetings outside the North American area? (See section 274(h).)		
(5) Employee or family vacations not reported on Form W-2?		
K At any time during the tax year, did you have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? (See instructions for exceptions and filing requirements for form TD F 90-22.1.)		
If "Yes," write the name of the foreign country ▶ ____________________	▨	▨
L Were you the grantor of, or transferor to, a foreign trust which existed during the current tax year, whether or not you have any beneficial interest in it? If "Yes," you may have to file Forms 3520, 3520-A, or 926		
M During this tax year did you maintain any part of your accounting/tax records on a computerized system?		
N Check method of accounting: **(1)** ☐ Cash **(2)** ☐ Accrual **(3)** ☐ Other (specify) ▶ ____________________	▨	▨
O Check this box if the S corporation has filed or is required to file Form 8264, Application for Registration of a Tax Shelter . . . . ☐	▨	▨

Schedule K Shareholders' Share of Income, Credits, Deductions, etc. (See Instructions.)

(a) Distributive share items		(b) Total amount
Income (Losses) and Deductions		
1 Ordinary income (loss) (page 1, line 24) *	1	
2 Dividends qualifying for the exclusion	2	
3 Net short-term capital gain (loss) (Schedule D (Form 1120S))	3	
4 Net long-term capital gain (loss) (Schedule D (Form 1120S))	4	
5 Net gain (loss) under section 1231 (other than due to casualty or theft)	5	
6 Other income (loss) (attach schedule)	6	
7 Charitable contributions	7	
8 Expense deduction for recovery property (section 179 expense) *	8	
9 Other deductions (attach schedule)	9	
Credits		
10 Jobs credit *	10	
11 Other credits (see instructions) *	11	
Tax Preference Items		
12 a Accelerated depreciation on nonrecovery real property or 15-year or 18-year real property	12a	
b Accelerated depreciation on leased personal property or leased recovery property other than 15 (or 18)-year real property	12b	
c Depletion (other than oil and gas)	12c	
d (1) Gross income from oil, gas, or geothermal properties	12d(1)	
(2) Gross deductions allocable to oil, gas, or geothermal properties	12d(2)	
e (1) Qualified Investment income included on page 1, Form 1120S	12e(1)	
(2) Qualified Investment expenses included on page 1, Form 1120S	12e(2)	
f Other items (attach schedule)	12f	
Investment Interest		
13 a (1) Investment debts incurred before 12-17-69	13a(1)	
(2) Investment debts incurred before 9-11-75 but after 12-16-69	13a(2)	
(3) Investment debts incurred after 9-10-75	13a(3)	
b (1) Investment income included on page 1, Form 1120S	13b(1)	
(2) Investment expenses included on page 1, Form 1120S	13b(2)	
c (1) Income from "net lease property"	13c(1)	
(2) Expenses from "net lease property"	13c(2)	
d Excess of net long-term capital gain over net short-term capital loss from investment property	13d	
Foreign Taxes		
14 a Type of income	▨	▨
b Name of foreign country or U.S. possession	▨	▨
c Total gross income from sources outside the U.S. (attach schedule)	14c	
d Total applicable deductions and losses (attach schedule)	14d	
e Total foreign taxes (check one): ▶ ☐ Paid ☐ Accrued	14e	
f Reduction in taxes available for credit (attach schedule)	14f	
g Other (attach schedule)	14g	
Other Items		
15 Total dividend distributions paid from accumulated earnings and profits contained in retained earnings (lines 23 and 24 of Schedule L)	15	
16 Total property distributions (including cash) other than dividend distributions reported on line 15	16	
17 Other items and amounts not included in lines 1 through 16 that are required to be reported separately to shareholders (attach schedule).	▨	▨

* You are not required to complete lines 1, 8, 10, and 11. Completion of these lines is optional because the amounts which would appear in column (b) appear elsewhere on Form 1120S or on other IRS forms or schedules which are attached to Form 1120S.

Schedule L Balance Sheets

Assets	Beginning of tax year (a)	(b)	End of tax year (c)	(d)
1 Cash	▨		▨	
2 Trade notes and accounts receivable		▨		▨
a Less allowance for bad debts				
3 Inventories	▨		▨	
4 Federal and State government obligations	▨		▨	
5 Other current assets (attach schedule)	▨		▨	
6 Loans to shareholders	▨		▨	
7 Mortgage and real estate loans	▨		▨	
8 Other investments (attach schedule)	▨		▨	
9 Buildings and other depreciable assets		▨		▨
a Less accumulated depreciation				
10 Depletable assets		▨		▨
a Less accumulated depletion				
11 Land (net of any amortization)	▨		▨	
12 Intangible assets (amortizable only)		▨		▨
a Less accumulated amortization				
13 Other assets (attach schedule)	▨		▨	
14 Total assets	▨		▨	
Liabilities and Shareholders' Equity	▨	▨	▨	▨
15 Accounts payable	▨		▨	
16 Mortgages, notes, bonds payable in less than 1 year	▨		▨	
17 Other current liabilities (attach schedule)	▨		▨	
18 Loans from shareholders	▨		▨	
19 Mortgages, notes, bonds payable in 1 year or more	▨		▨	
20 Other liabilities (attach schedule)	▨		▨	
21 Capital stock	▨		▨	
22 Paid-in or capital surplus	▨		▨	
23 Retained earnings—Appropriated (attach schedule)	▨		▨	
24 Retained earnings—Unappropriated (see	▨	▨	▨	▨
instructions)	▨		▨	
25 Shareholders' undistributed taxable income previously taxed	▨		▨	
26 Accumulated adjustments account	▨		▨	
27 Other adjustments account	▨		▨	
28 Less cost of treasury stock	▨	( )	▨	( )
29 Total liabilities and shareholders' equity	▨		▨	

Schedule M Analysis of Shareholders' Undistributed Taxable Income Previously Taxed, Accumulated Adjustments Account, and Other Adjustments Account (If Schedule L, column (d), amounts for lines 25, 26, or 27 are not the same as corresponding amounts on line 9 of Schedule M, attach a schedule explaining any differences. See instructions.)

	Shareholders' undistributed taxable income previously taxed	Accumulated adjustments account	Other adjustments account
1 Balance at beginning of year			
2 Ordinary income from page 1, line 24	▨		▨
3 Other additions	▨		
4 Total of lines 1, 2, and 3			
5 Distributions other than dividend distributions			
6 Loss from page 1, line 24	▨		▨
7 Other reductions	▨		
8 Add lines 5, 6, and 7			
9 Balance at end of tax year—Subtract line 8 from line 4			

1985

Department of the Treasury
Internal Revenue Service

Instructions for Form 1120S

U.S. Income Tax Return for an S Corporation

(Section references are to the Internal Revenue Code, unless otherwise noted.)

Paperwork Reduction Act Notice

We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Voluntary Contributions To Reduce the Public Debt

Quite often inquiries are received about how voluntary contributions to reduce the public debt may be made. A corporation may contribute by enclosing a separate check, payable to "Bureau of the Public Debt" with the tax return. Please keep the contribution to reduce the public debt separate from any amount payable with the tax return. Tax remittances should be made payable to "Internal Revenue Service."

Changes You Should Note

- **Changes in Service Center Addresses.**—Filers from Arkansas, California, Kentucky, Minnesota, and West Virginia should note the new filing addresses listed in the Where To File instruction.
- **New Reporting Requirements.**—All corporations claiming either a deduction or credit for automobiles or other "listed property" are required to complete the appropriate sections of Part III of **Form 4562**, Depreciation and Amortization.
- **Reduced Depreciation for Vehicles.**—For automobiles placed in service after April 2, 1985, the depreciation deduction for each vehicle, including any section 179 expense deduction, is limited to $3,200 in the first tax year, and $4,800 in each succeeding tax year. These limitations are further reduced if your business and/or investment use is less than 100%. See Form 4562 for details.
- **New Limitations for Investment Tax Credit.**— For an automobile leased or placed in service after April 2, 1985, the investment tax credit amount is limited to $675. This amount is further limited to $450 if the corporation elects not to decrease the basis for depreciation purposes. See **Form 3468**, Computation of Investment Credit, and the Form 3468 Instructions for details.
- **Taxable Fringe Benefits.**—If you provided a **Form W-2**, Wage and Tax Statement, to your employees because of taxable fringe benefits such as personal use of a car, do not include as wages the amount allocated for depreciation and other expenses that you claimed elsewhere on Form 1120S.

Reminders

- **Pre-addressed Label.**—Use the pre-addressed label and envelope that comes with the tax package to help speed the processing of your return.
- **Penalty for Failure To Furnish Schedule K-1 Information to Shareholders.**—For tax years beginning after December 31, 1984, a penalty may be imposed on the corporation for each failure to furnish a statement (Schedule K-1) under section 6037(b) unless the failure is due to reasonable cause and not willful neglect. The penalty is $50 for each schedule not furnished, but not to exceed $50,000 in any tax year. See section 6678(a)(3)(F) for more information.
- **Section 58(i) Expenditures.**—Do not take a deduction for any qualified expenditures to which an election under section 58(i) applies. Instead, pass the expenditures and information needed to compute this deduction through to your shareholders on the schedule attached for line 19 of Schedule K-1. Each shareholder will take the deductible amount, if any, on his or her own return. See the instructions for line 17 of Schedule K and line 19 of Schedule K-1 for more information.
- **Inactive Shareholder.**—For purposes of the alternative minimum tax information to be reported on lines 12e(1) and (2) of Schedules K and K-1, if a shareholder does not actively participate in the management of the corporation, the shareholder's share of the corporation's qualified investment income and qualified investment expenses includes the income and expenses from the trade or business of the corporation. See section 55(e)(8) and the instructions for lines 12e(1) and 12e(2) of Schedules K and K-1 for details.
- **Depletion.**—Do not deduct depletion on oil and gas wells on the S corporation return. Instead, pass the information needed to compute this deduction through to the shareholders on an attached schedule for line 19 of Schedule K-1. The shareholders will determine the deductible amount on their own returns. See the instructions for line 17 of Schedule K and line 19 of Schedule K-1 for more information.

Registration of Tax Shelter

If an S corporation is a tax shelter, or if the corporation is involved in a tax shelter, or if the corporation is considered to be the organizer of a tax shelter, or if the corporation is a pass-through entity of the shelter benefits, there are reporting requirements under section 6111 for both the corporation and its shareholders.

See **Form 8264,** Application for Registration of a Tax Shelter, and **Form 8271,** Investor Reporting of Tax Shelter Registration Number, and their related instructions for information the corporation must provide to IRS and to the shareholders to enable them to comply with these requirements.

The tax shelter registration number has been added to Schedule K-1 for 1985 as item C. The corporation must complete item C for all shareholders if applicable. Also complete item O on page 2 of Form 1120S.

General Instructions

Purpose of Form

Form 1120S is used if a domestic corporation has filed **Form 2553**, Election by a Small Business Corporation, to be an S corporation and its election is in effect. Do not file your first Form 1120S until you have been notified by the IRS that your election is accepted and the tax year it will take effect.

If you need more information, get **Publication 589,** Tax Information on S Corporations.

Filing Form 1120S

Who Must File

You must file Form 1120S if: you elected by filing Form 2553 to be taxed as an S corporation; IRS accepted your election; and the election remains in effect.

End of Election

Once the election is made, it stays in effect for all years until it is terminated. During the 5 years after the tax year the election has been terminated, the corporation can make another election on Form 2553 only if the Commissioner consents. See section 1362(g), and related regulations.

The election ends **automatically** in any of the following cases:

a. The corporation is no longer a small business corporation as defined in section 1361(b). The ending of an election in this manner is effective as of the day on which the corporation ceases to be a small business corporation. See sections 1362(d)(2) and 1362(e) for more information.

b. If, for each of three consecutive tax years, the corporation has both subchapter C earnings and profits, and gross receipts more than 25% of which are derived from passive investment income as defined in section 1362(d)(3)(D), the election shall terminate on the first day of the first tax year beginning after the third consecutive tax year. The corporation must pay a tax for each year it has excess net passive income. See specific instructions for line 25a for details on how to figure the tax.

c. When an existing S corporation (section 1378(c)(1)) has a more than 50% change in ownership and has not adopted a permitted tax year as defined in section 1378(b) for any tax year following the year it has more than 50% change in ownership. See section 1378(c) for details.

The election may be revoked if shareholders who collectively own a majority of the stock in the corporation consent to a revocation. So long as the specified date is on or after the date of consent to the revocation, the revocation is effective as of the specified date. If no date is specified, the revocation is effective as of the beginning of a tax year if it is made on or before the 15th day of the 3rd month of such tax year. If no date is specified and the revocation is made after the 15th day of the 3rd month, it is not effective until the beginning of the following tax year. See section 1362(d)(1) for more information.

When To File

In general, file Form 1120S by the 15th day of the 3rd month after the end of the tax year. Use **Form 7004**, Application for Automatic Extension of Time To File Corporation Income Tax Return, to request an automatic 6-month extension of time to file Form 1120S.

Period To Be Covered by 1985 Return

File the 1985 return for calendar year 1985 and fiscal years beginning in 1985 and ending in 1986. If the return is for a fiscal year, fill in the tax year spaces on the form.

Note: *The 1985 Form 1120S may also be used if: (1) the corporation has a tax year of less than 12 months that begins and ends in 1986; and (2) the 1986 Form 1120S is not available by the time the corporation is required to file its return. However, the corporation must show its 1986 tax year on the 1985 Form 1120S and incorporate any tax law changes that are effective for tax years beginning after December 31, 1985.*

Final Return

If the corporation ceases to exist, write "FINAL RETURN" at the top of the form.

Amended Return

To correct an error in a Form 1120S already filed, file an amended Form 1120S and write "AMENDED" across the top. If the amended return results in a change to income, or a change in the distribution of any income or other information provided to shareholders, an amended Schedule K-1 (Form 1120S) must also be filed with the amended Form 1120S and given to each shareholder. Write "AMENDED" across the top of the corrected Schedule K-1.

Designation of Tax Matters Person (TMP)

An S corporation may designate an individual shareholder as the TMP for a specific corporate tax year by attaching a statement to the return that:

1. Identifies by name, address, and taxpayer identification number the corporation and the individual shareholder designated as the TMP, and
2. Declares that the attached statement is a designation of a TMP for the tax year to which the return relates (an S corporation may not designate a TMP for any tax year other than the year for which the return is being filed), and
3. Is signed by a corporate officer authorized to sign the corporation's return.

Where To File

If the corporation's principal business, office, or agency is located in	Use the following Internal Revenue Service Center address
New Jersey, New York City and counties of Nassau, Rockland, Suffolk, and Westchester	Holtsville, NY 00501
New York (all other counties), Connecticut, Maine, Massachusetts, Minnesota, New Hampshire, Rhode Island, Vermont	Andover, MA 05501
Alabama, Florida, Georgia, Mississippi, South Carolina	Atlanta, GA 31101
Kentucky, Michigan, Ohio, West Virginia	Cincinnati, OH 45999
Kansas, Louisiana, New Mexico, Oklahoma, Texas	Austin, TX 73301
Alaska, Arizona, California (counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo, and Yuba), Colorado, Idaho, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	Ogden, UT 84201
California (all other counties), Hawaii	Fresno, CA 93888
Illinois, Iowa, Missouri, Wisconsin	Kansas City, MO 64999
Arkansas, Indiana, North Carolina, Tennessee, Virginia	Memphis, TN 37501
Delaware, District of Columbia, Maryland, Pennsylvania	Philadelphia, PA 19255

Accounting Methods

Figure ordinary income using the method of accounting regularly used in keeping the corporation's books and records. In all cases, the method adopted must clearly reflect income. (See section 446.)

Unless the law specifically states otherwise, a corporation may change the method of accounting used to report income in earlier years (for income as a whole or for any material item) only by first getting consent on **Form 3115**, Application for Change in Accounting Method. Also see **Publication 538**, Accounting Periods and Methods.

Rounding Off to Whole-Dollar Amounts

You may show the money items on the return and accompanying schedules as whole-dollar amounts. To do so, drop any amount less than 50 cents, and increase any amount from 50 cents through 99 cents to the next higher dollar.

Change in Accounting Period

To change an accounting period, see regulations section 1.442-1 and **Form 1128,** Application for Change in Accounting Period. Also see Publication 538.

Paying the Tax

The corporation must pay the tax due (line 27, page 1) in full within 2½ months after the end of the tax year.

Deposit corporation income tax payments with a Federal Tax Deposit Coupon (Form 8109). Make these tax deposits with either a financial institution qualified as a Depositary for Federal taxes or the Federal Reserve Bank or Branch servicing the geographic area where the corporation is located. Do not submit deposits directly to an IRS office, otherwise the corporation may be subject to a 5% penalty. Records of deposits will be sent to IRS for crediting to the corporation's account. See the instructions contained in the coupon book (Form 8109) for more information. There will no longer be periodic mailouts of Federal Tax Deposit forms. To get more deposit forms, use the reorder form (Form 8109A) provided in the coupon book.

For additional information concerning deposits, see **Publication 583,** Information for Business Taxpayers.

Penalties

a. Form 1120S is required to be filed by sections 6037 and 6012. A corporation that does not file its tax return by the due date, including any extensions, may have to pay a penalty of 5% a month, or fraction of a month, up to a maximum of 25%, for each month the return is not filed. (The penalty is imposed on the net amount due. See section 6651(a)(1).) The minimum penalty for not filing a tax return within 60 days of the due date for filing (including extensions) is the lesser of the underpayment of tax or $100.

b. A corporation that does not pay the tax when due may have to pay a penalty of ½% a month or fraction of a month, up to a maximum of 25%, for each month the tax is not paid. (The penalty is imposed on the net amount due. See section 6651(a)(2).)

These penalties will not be imposed if the corporation can show that not filing or not paying was due to reasonable cause and not willful neglect.

The penalties are in addition to the interest charge imposed on unpaid tax at a rate under section 6621.

Stock Ownership in Foreign Corporations

If the corporation owned at least 5% in value of the outstanding stock of a foreign personal holding company, attach the statement required by section 551(c).

A taxpayer who controls a foreign corporation, or who is a 10% or more shareholder of a controlled foreign corporation, may have to file **Form 5471,** Information Return with Respect to a Foreign Corporation.

Net Operating Loss and Other Deductions

An S corporation may not take the deduction for net operating losses provided by section 172 and the special deductions in sections 241 through 250 (except section 248).

The corporation's net operating loss is allowed as a deduction from the shareholders' gross income. (Section 1366.)

Attachments

Attach **Form 4136,** Computation of Credit for Federal Tax on Gasoline and Special

Fuels, after page 4, Form 1120S. Attach schedules in alphabetical order and other forms in numerical order.

To assist us in processing the return, we ask that you complete every applicable entry space on Form 1120S and Schedule K-1. Please do not attach statements and write "See attached" in lieu of completing the entry spaces on Form 1120S and Schedule K-1.

If you need more space on the forms or schedules, attach separate sheets and show the same information in the same order as on the printed forms. But show your totals on the printed forms. Please use sheets that are the same size as the forms and schedules. Attach these separate sheets after all the schedules and forms. Be sure to put the taxpayer's name and employer identification number (EIN) on each sheet.

Unresolved Tax Problems

IRS has a Problem Resolution Program for taxpayers who have been unable to resolve their problems with IRS. If the corporation has a tax problem it has been unable to resolve through normal channels, write to the corporation's local IRS District Director or call the corporation's local IRS office and ask for Problem Resolution Assistance. This office will take responsibility for your problem and ensure that it receives proper attention. Although the Problem Resolution Office cannot change the tax law or make technical decisions, it can frequently clear up misunderstandings that resulted from previous contacts.

Signature

The return must be signed and dated by the president, vice president, treasurer, assistant treasurer, chief accounting officer, or any other corporate officer (such as tax officer) authorized to sign.

A receiver, trustee, or assignee must sign and date any return he or she is required to file on behalf of a corporation.

If your corporate officer fills in Form 1120S, the Paid Preparer's space under "Signature of Officer" should remain blank. If someone prepares Form 1120S and does not charge the corporation, that person should not sign the return. Certain others who prepare Form 1120S should not sign. For example, a regular, full-time employee of the corporation such as a clerk, secretary, etc. does not have to sign.

In general, anyone paid to prepare Form 1120S must sign the return and fill in the other blanks in the Paid Preparer's Use Only area of the return.

The preparer required to sign the return MUST:

- Complete the required preparer information.
- Sign, by hand, in the space provided for the preparer's signature. (Signature stamps or labels are not acceptable.)
- Give a copy of Form 1120S to the taxpayer in addition to the copy filed with IRS.

Tax return preparers should be familiar with their responsibilities. See **Publication 1045**, Information and Order Blanks for Preparers of Federal Income Tax Returns, for more details.

Transfers to Corporation Controlled by Transferor

If a person acquires stock or securities of a corporation in exchange for property, and no gain or loss is recognized under section 351, the transferor and transferee must attach the information required by regulations section 1.351-3.

Information Returns That May Be Required

Form 966. Corporate Dissolution or Liquidation.

Form 1096. Annual Summary and Transmittal of U.S. Information Returns. (For transmitting Form 1099-R information for 1985, use **Form W-3G**, Transmittal of Certain Information Returns.)

Form 1098. Mortgage Interest Statement. This form is used to report the receipt from any individual of $600 or more of mortgage interest in the course of the corporation's trade or business for any calendar year after 1984.

Forms 1099-A, B, DIV, INT, MISC, OID, PATR and R. You may have to file these information returns to report abandonments and acquisitions through foreclosure, proceeds from broker and barter exchange transactions, certain dividends, interest payments, medical and dental health care payments, miscellaneous income, original issue discount, patronage dividends, and total distributions from profit-sharing plans, retirement plans, and individual retirement arrangements. Also use these returns to report amounts that were received as a nominee on behalf of another person.

For more information about filing these forms, see the Instructions for Form 1099 Series, and Forms 1098, 5498, and 1096.

Use Form 1099-DIV to report actual dividends paid by the corporation. Only distributions from accumulated earnings and profits are classified as dividends. These dividends qualify for the dividend exclusion under section 116. Do not issue Form 1099-DIV for dividends received by the corporation that are allocated to shareholders on line 2 of Schedule K-1 (Form 1120S).

Note: *Every corporation must file information returns if it makes payments of rents, commissions, or other fixed or determinable income (see section 6041) totaling $600 or more to any one person in the course of its trade or business during the calendar year.*

Form 5713, International Boycott Report, is for use by persons having operations in or related to "boycotting" countries. In addition, persons who participate in or cooperate with an international boycott may have to complete Schedule A or Schedule B and Schedule C of Form 5713 to compute their loss of the following items: the foreign tax credit, the deferral of earnings of a controlled foreign corporation, IC-DISC benefits and FSC benefits.

Form 8300. Report of Cash Payments Over $10,000 Received in a Trade or Business. This form is used to report the receipt of more than $10,000 in cash or foreign currency in one transaction (or a series of related transactions).

Windfall Profit Tax. Notify each shareholder of any income tax deduction for windfall profit tax on **Form 6248,** Annual Information Return of Windfall Profit Tax. Include on the statement attached for line 19 of Schedule K-1 the shareholder's share of windfall profit tax. The individual shareholder figures his or her overpaid windfall profit tax on **Form 6249,** Computation of Overpaid Windfall Profit Tax.

Specific Instructions

Employer Identification Number. If the employer identification number (EIN) on the label is wrong or if you did not receive a label, write the correct number at the top of the return.

A corporation that does not have an EIN should apply for one on **Form SS-4,** Application for Employer Identification Number. Obtain this form at most IRS or Social Security Administration offices. Send Form SS-4 to the same Internal Revenue Service Center to which Form 1120S is mailed. If the EIN has not been received by the filing time for Form 1120S, write "Applied for" in the space for the EIN. See Publication 583 for additional information.

Business Code No.—See "Codes for Principal Business Activity" at the end of these instructions.

Total Assets. Enter the total assets of the corporation. If there are no assets at the end of the tax year, enter the total assets as of the beginning of the tax year.

Gross Income

Caution: Do not include investment interest expense on debts incurred after December 16, 1969, in figuring the amounts to enter on lines 1 through 8. Report this amount on lines 16a and 16b of page 1. This amount is passed through to the shareholders on Schedules K and K-1. See the instructions for lines 13a(2) and (3) of Schedules K and K-1. Property held for investment, including property subject to a net lease, includes all investments held for producing taxable income or gain. It does not include property used in the corporation's trade or business.

Note: *Do not include any income that is tax-exempt in lines 1 through 8, or any nondeductible expenses in lines 10 through 22. However, this income and expense is used in figuring the amount for line 26 or 27 of Schedule L. Also, see instructions for line 17 of Schedule K and line 19 of Schedule K-1.*

A corporation that receives any exempt income other than interest, or holds any property or engages in an activity that produces exempt income, must attach to its return an itemized statement showing the amount of each type of exempt income and the expenses allocated to each type.

Line 1

Gross receipts

Enter gross receipts or sales from all business operations except those you report on lines 4 through 8.

For reporting advance payments and long-term contracts, see regulations sections 1.451-3 and 1.451-5.

If you use the installment method, enter on line 1c the gross profit on collections from installment sales and carry the same amount to line 3. Attach a schedule showing for the current year and 3 preceding years: (a) gross sales, (b) cost of goods sold, (c) gross profit, (d) percentage of gross profit to gross sales, (e) amount collected, and (f) gross profit on amount collected.

Line 2

Cost of goods sold and/or operations

See the instructions for Schedule A.

Line 4

Enter the total taxable interest and the total nonqualifying dividends. See **Publication 550,** Investment Income and Expenses, for additional information.

Taxable interest

Include taxable interest from all sources. Do not include interest exempt from tax and interest on tax-free covenant bonds.

Nonqualifying dividends

Nonqualifying dividends are taxable dividends that are included in ordinary income and for which the individual shareholder is not entitled to an exclusion under section 116. These dividends come from the following:

- Foreign corporations, including a controlled foreign corporation.
- Exempt organizations (charitable, fraternal, etc.) and exempt farmers' cooperative organizations.
- Regulated investment companies (including Money Market Funds) and real estate investment trusts, unless the companies have told you how much of the dividends qualify for the exclusion or as capital gain dividends.

Qualifying dividends are taxable dividends received from domestic corporations not listed above. They are passed through to the shareholders on Schedules K and K-1, line 2. See section 116 for more information.

Line 5

Gross rents

Enter the gross amount you received for renting property. Enter expenses attributable to rental income on the proper deduction lines (10-22).

The corporation may be limited in the amount of deductions for renting a vacation home if a shareholder uses the property for personal purposes. (See section 280A.)

Before deducting any interest expense, see the instructions for lines 16a-c and lines 13c(1) and (2) of Schedules K and K-1 to determine if the interest on rental property is investment interest.

Line 8

Other income

Enter any other taxable income not listed above and explain its nature on an attached schedule. Examples of other income are recoveries of bad debts deducted in earlier years under the specific charge-off method, the amount of credit for alcohol used as a fuel that was figured on Form 6478, Credit for Alcohol Used as Fuel, and refunds of taxes deducted in earlier years. Do not include those items requiring separate computations by shareholders that must be reported on Schedule K. (See the instructions for Schedules K and K-1.) Do not offset current year's taxes with tax refunds.

If "other income" consists of only one item, identify it by showing the account caption in parentheses on line 8. A separate schedule need not be attached to the return in this case.

Deductions

Limitations on deductions

1. **Transactions between related taxpayers.**— See section 267 for rules on treatment of losses, expenses, and interest on transactions between related taxpayers.

2. **Limitation on deductions for tax preference items.**— If the S corporation was a C corporation for any of the three immediately preceding years, it may be required to reduce deductions for the following tax preference items by 20% except where noted:

a) Section 1250 capital gain;

b) Amortizable basis of pollution control facilities (15% for property placed in service before January 1, 1985);

c) Intangible drilling and exploration and development costs (15% for expenditures made before January 1, 1985); and

d) Depletion of iron ore and coal (including lignite) (15%).

See sections 1363(b)(4) and 291 for more information.

3. See section 58(i) regarding qualified expenditures under sections 173, 174(a), 263(c), 616(a), and 617. These expenditures are passed through separately to shareholders to allow them the write-off option under section 58(i). See instructions for line 17 of Schedule K.

4. **Business start-up expenses.**— Section 195 provides that business start-up expenses be amortized over a period of at least 60 months.

Line 10

Compensation of officers

Enter on line 10 the total compensation of all officers.

Line 11

Salaries and wages

Enter on line 11a the amount of total salaries and wages (other than salaries and wages deducted elsewhere on your return) paid or incurred for the tax year.

Enter on line 11b the applicable jobs credit from **Form 5884,** Jobs Credit. See Instructions for Form 5884 for more information.

If a shareholder or a member of the family of one or more shareholders of the corporation renders services or furnishes capital to the corporation for which reasonable compensation is not paid, the IRS may make adjustments in the items taken into account by such individuals and the value of such services or capital. See section 1366(e).

Line 12

Repairs

Enter the cost of incidental repairs, such as labor and supplies, that do not add to the value of the property or appreciably prolong its life. New buildings, machinery, or permanent improvements that increase the value of the property are not deductible. They are chargeable to capital accounts and may be depreciated or amortized.

Do not include section 179 expense items. Report this amount on **Form 4562,** Depreciation and Amortization, Part I, Section A, and on Schedule K, line 8, and each shareholder's share on line 8 of Schedule K-1.

Line 13

Bad debts

You may treat bad debts in either of two ways: (a) as a deduction for specific debts that become worthless in whole or in part, or (b) as a deduction for a reasonable addition to a reserve for bad debts. (Section 166.)

If the corporation uses the reserve method, attach a schedule for 1985 that separately lists:

1. Trade notes and accounts receivable outstanding at the end of the year;
2. Sales on account;
3. Amount added to reserve—current-year's provision;
4. Amount added to reserve—recoveries;
5. Amount charged against reserve; and
6. Reserve for bad debts at end of year.

An S corporation may choose either method on its first return in which it takes a bad debt deduction. It must use that method for following years unless it receives permission to change. However, if the corporation is changing from the specific charge-off method (section 166(a)) to the reserve method (section 166(c)), see Revenue Procedure 85-8, 1985-6 I.R.B. 41. Apply on Form 3115 if you want to change the method of figuring bad debts.

Line 15

Taxes

Enter taxes paid or incurred on business property for carrying on a trade or business, if not reflected in cost of goods sold. Federal import duties and Federal excise and stamp taxes are deductible only if paid or incurred in carrying on the trade or business of the corporation. Taxes incurred in the production or collection of income, or for the management, conservation, or maintenance of property held for the production of income may be considered to be deductible only under section 212. These are not deductible on line 15; they are reported separately on Schedules K and K-1, line 9.

Do not deduct taxes assessed against local benefits that increase the value of the property assessed (such as for paving, etc.), Federal income taxes, estate, inheritance, legacy, succession, and gift taxes, or taxes reported elsewhere, such as in Schedule A.

Do not deduct section 901 foreign taxes. These taxes are reported separately to shareholders on line 14 of Schedules K and K-1.

See section 189(b) for information on amortizing real property construction period taxes.

Lines 16a-16c

Interest

Caution: Include on lines 16a and 16b interest expense on indebtedness incurred after December 16, 1969 to purchase or carry property held for investment (including net lease property). Also include interest expense not incurred in the trade or business of the corporation required to be reported on line 9 of Schedules K and K-1. Property held for investment includes all investments held for producing taxable income or gain. It does not generally include property used in a trade or business. See the instructions for Schedules K and K-1, line 13b, for a description of investment income. See the instructions for Schedules K and K-1, line 13c, to determine if rental property is investment property.

For more information, see section 163(d) and **Form 4952**, Investment Interest Expense Deduction.

Line 16a

Enter interest on all indebtedness incurred for the operation of the corporation that is deductible by either the corporation or the shareholders (that is not claimed elsewhere on the return).

Generally, both accrual and cash basis corporations must deduct prepaid interest payments over the period of the prepayment instead of when actually paid. (See section 461(g).)

Do **not** include on line 16a:

- Amounts claimed elsewhere on the return such as on Schedule A.
- Amounts paid or accrued during the year for real property construction period interest. See section 189 for more information.

The interest and carrying charges on straddle positions established after June 23, 1981, can no longer be deducted. Instead, capitalize these amounts. See section 263(g) for exceptions.

Line 16b

See Caution under Lines 16a-16c above before completing line 16b. The line 16b amount is entered on lines 13a(2) and 13a(3) of Schedule K.

Line 17

Depreciation

Enter depreciation expense from Form 4562. Include amortization expense from Form 4562 on line 22.

Do not include any expense deduction for recovery property (section 179) on this line. This amount is not deductible by the corporation. Instead, it is passed through to the shareholders on line 8 of Schedules K and K-1.

Line 18

Depletion

Do not report depletion deductions for oil and gas properties on this line. Each shareholder figures depletion on these properties under section 613A(c)(13). See the Instructions for line 17 of Schedule K, for information on oil and gas depletion that must be supplied to the shareholders by the corporation.

Line 20

Pension, profit-sharing, etc., plans

Employers who maintain a pension, profit sharing, or other funded deferred compensation plan whether or not qualified under the Internal Revenue Code and whether or not a deduction is claimed for the current tax year, generally are required to file one of the forms listed below:

Form 5500, Annual Return/Report of Employee Benefit Plan (With 100 or more participants).

Form 5500-C, Return/Report of Employee Benefit Plan (With fewer than 100 participants). **Form 5500-R**, Registration Statement of Employee Benefit Plan.— Complete the applicable form for each plan with fewer than 100 participants.

There are penalties for failure to file these forms on time.

Line 21

Employee benefit programs

Enter the amount of contributions to employee benefit programs (such as insurance and health and welfare programs) that are not an incidental part of a pension, profit-sharing, etc., plan included in line 20.

Partnership-type rules apply for fringe benefit purposes. See section 1372 for more information and section 6(d) of Public Law 97-354 for exceptions to section 1372.

Also include the corporation's contributions to a qualified group legal services plan established for the exclusive benefit of employees (including shareholders) or their spouses or dependents. See section 120(e) for termination of a qualified group legal services plan for tax years ending after December 31, 1985.

Line 22

Other deductions

Enter any other authorized deductions for which there is no line on page 1 of the return. Do not include those items requiring separate computations which must be reported on Schedules K and K-1. Do not deduct losses incurred in transactions which were not connected with the corporation's trade or business. Report these losses separately to shareholders on Schedules K and K-1, line 9.

Do not include qualified expenditures to which an election under section 58(i) applies. See instructions for line 17 of Schedule K for details on treatment of these items.

Include in line 22 the deduction taken for amortization. See instructions for Form 4562 and sections 169, 174, 177, 188, 189, 195, etc. for more information.

In most cases, you may not take a deduction for any part of any item allocable to a class of exempt income. (See section 265(2) for exceptions.) Items directly attributable to wholly exempt income must be allocated to that income. Items directly attributable to any class of taxable income must be allocated to that taxable income.

If an item is indirectly attributable both to taxable income and to exempt income, allocate a reasonable proportion of the item to each, based on all the facts in each case.

Attach a statement showing (1) the amount of each class of exempt income and (2) the amount of expense items allocated to each such class. Show the amount allocated by apportionment separately.

In the case of a farming syndicate, a deduction for amounts paid for feed, seed, fertilizer, or other similar farm supplies is allowed only in the tax year in which these items are actually used or consumed. For definitions, exceptions to the general rule, and special rules for orchard and vineyard expenses, see section 278.

For special treatment of certain expenses incurred in the production of films, books, records, or similar property, see section 280.

Generally, the corporation can deduct all ordinary and necessary travel and entertainment expenses paid or incurred in the corporation's trade or business. However, the corporation cannot deduct an expense paid or incurred for a facility (such as a yacht or hunting lodge) that is used for an activity that is usually considered entertainment, amusement, or recreation. (The corporation may be able to deduct the expenses if the amount is treated as compensation and reported on Form W-2 for an employee or on Form 1099-MISC for an independent contractor.) See ***Publication 463****, Travel, Entertainment, and Gift Expenses, for more details.*

Line 24

Ordinary income (loss)

This is nonseparately computed income or loss as defined in section 1366(a)(2). This income or loss is entered on line 1 of Schedule K.

Line 24 income is not used in figuring line 25a or 25b tax. See instruction for line 25a for figuring taxable income for purposes of line 25a or 25b tax.

Line 25a

If the corporation has always been a subchapter S corporation, the line 25a tax does not apply to the corporation. If the corporation has subchapter C earnings and profits at the close of its tax year, has passive investment income that is in excess of 25% of gross receipts, and has taxable income at year end, the corporation must pay a tax on the excess net passive income. Complete lines 1 through 3 and line 9 of the worksheet on page 6 to make this determination. If line 2 is greater than line 3 and the corporation has taxable income (see taxable income instruction on page 6), it must pay the tax. Complete a separate schedule using the format of lines 1 through 10 of the worksheet to figure the tax. Enter the tax on line 25a, page 1, Form 1120S, and attach the computation schedule to Form 1120S.

Reduce each item of passive income passed through to shareholders by its portion of tax on line 25a. See section 1366(f)(3).

Worksheet

1. Enter gross receipts for the tax year (see section 1362(d)(3)(C) for gross receipts from the sale of capital assets)*. . . . . ________
2. Enter passive investment income as defined in section 1362(d)(3)(D)* . . . . . . ________
3. Enter 25% of line 1 (if line 2 is less than line 3, stop here. You are not liable for this tax.) . . . ________
4. Excess passive investment income—Subtract line 3 from line 2 ________
5. Enter expenses directly connected with the production of income on line 2 (see section 1375(b)(2))* . . . . . . ________
6. Net passive income—Subtract line 5 from line 2 . . . . . ________
7. Divide amount on line 4 by amount on line 2 . . . . . . ________ %
8. Excess net passive income—Multiply line 6 by line 7 . . . . ________
9. Enter taxable income (see instruction for taxable income below) . . . . ________
10. Tax on excess net passive income—Enter 46% of the smaller of line 8 or 9. (Enter here and on line 25a, page 1, Form 1120S.) . ________

*Income and expenses on lines 1, 2, and 5 are from total operations for the tax year. This includes applicable income and expenses from page 1, Form 1120S, as well as those that are reported separately on Schedule K. See sections 1362(d)(3)(D)(ii)-(v) for exceptions regarding lines 2 and 5.

Taxable income (line 9 of the worksheet)

Line 9 income is defined in section 1374(d). You figure this income by completing lines 1 through 28 of **Form 1120**, U.S. Corporation Income Tax Return. Include the Form 1120 computation with the worksheet computation you attach to Form 1120S. You do not have to attach the schedules, etc. called for on Form 1120. However, you may want to complete certain Form 1120 schedules, such as Schedule D (Form 1120) if you have capital gains or losses.

Note: *Taxable income is the same for figuring line 25b tax as for figuring line 25a tax.*

Line 25b

If net capital gain, line 10, Schedule D (Form 1120S), is $25,000 or less, the corporation is not liable for income tax or minimum tax. If the net capital gain is more than $25,000, see Instructions for Part IV, Tax Computation of Schedule D (Form 1120S), to determine if the corporation is liable for income tax or minimum tax.

Line 25c

Section 1371(d) provides that an S corporation is liable for investment credit recapture attributable to credits allowed for tax years for which the corporation was not an S corporation.

Include the corporation's section 47 recapture tax in the total amount to be entered on line 25c. Write to the left of the line 25c total the amount of recapture tax and the words "section 47 tax," and attach **Form 4255,** Recapture of Investment Credit, to Form 1120S.

Schedule A
Cost of Goods Sold and/or Operations

Cost of Operations

If the entry on line 2, page 1, of Form 1120S is for the cost of operations, complete Schedule A, even if inventories are not used.

Valuation methods

Your inventories can be valued at: (a) cost, (b) cost or market value (whichever is lower), or (c) any other method approved by the Commissioner of Internal Revenue, if that method conforms to the provisions of the applicable regulations cited below.

Taxpayers using erroneous valuation methods must change to a method permitted for Federal income tax purposes. To make this change, file Form 3115. For more information, see regulations section 1.446-1(e)(3) and Rev. Proc. 84-74, 1984-2 C.B. 738.

In line 8a, check the method(s) used for valuing inventories. Under "lower of cost or market," market generally applies to normal market conditions when there is a current bid price prevailing at the date the inventory is valued. When no regular open market exists or when quotations are nominal because of inactive market conditions, use fair market prices from the most reliable sales or purchase transactions that occurred near the date the inventory is valued. For additional requirements, see regulations section 1.471-4.

Inventory may be valued below cost when the merchandise is unsalable at normal prices or unusable in the normal way because the goods are "subnormal" (that is because of damage, imperfections, shop wear, etc.) within the meaning of regulations section 1.471-2(c). Such goods may be valued at a current bona fide selling price less direct cost of disposition (but not less than scrap value) when the taxpayer can establish such a price. See regulations section 1.471-2(c) for additional requirements.

If this is the first year the "Last-in-First-out" (LIFO) inventory method was either adopted or extended to inventory goods not previously valued under the LIFO method, as provided in section 472, attach **Form 970,** Application to Use LIFO Inventory Method, or a statement with Form 1120S and check the LIFO box in line 8b. In line 8c, enter the amount or percent (estimates may be used) of total closing inventories covered under section 472.

If you have changed or extended your inventory method to LIFO and have had to "writeup" your opening inventory to cost in the year of election, report the effect of this writeup as income (line 8, page 1) proportionately over a 3-year period that begins in the tax year you made this election. (Section 472(d).)

If you are engaged in manufacturing or production, you must use the full absorption method of inventory costing. If you are not using it, you must change to this method. Under it, both direct and certain indirect production costs are included for inventory valuation purposes. Use Form 3115 to change to full absorption. For details, see Rev. Proc. 75-40, 1975-2 C.B. 571, regulations section 1.471-11; and Rev. Rul. 81-272, 1981-2 C.B. 116.

Additional Information

Be sure to answer the questions and provide other information in items G through O. The instructions that follow are keyed to these items.

Question K

Foreign financial accounts

Check the Yes box if either **1.** or **2.** below applies to you. Otherwise, check the No box.

1. At any time during the year the corporation had an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account). Exception. Check No if either of the following applies to you:
   - The combined value of the accounts was $5,000 or less during the whole year.
   - The accounts were with a U.S. military banking facility operated by a U.S. financial institution.
2. The corporation owns more than 50% of the stock in any corporation that would answer the question "Yes" based on Item 1 above.

Get form **TD F 90-22.1**, Report of Foreign Bank and Financial Accounts, to see if the corporation is considered to have an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account).

If question K is checked Yes, file form TD F 90-22.1 by June 30, 1986, with the Department of the Treasury at the address shown on the form. Form TD F 90-22.1 is not a tax return, so do not file it with the IRS.

Form TD F 90-22.1 can be obtained from many IRS offices.

Also, if question K is checked Yes, write the name of the foreign country or countries. Attach a separate sheet if you need more space.

Schedule K and Schedule K-1
Shareholder's Share of Income, Credits, Deductions, etc.

Purpose

Schedule K is a summary schedule of all the shareholders' share of the corporation's income, deductions, credits, etc. Schedule K-1 shows each shareholder's separate share. A copy of each shareholder's K-1 is attached to the Form 1120S filed with the IRS. A copy is kept as a part of the corporation's records and each shareholder receives his or her own separate copy with attached instructions.

Be sure to give each shareholder a copy of the Shareholder's Instructions for Schedule K-1 (Form 1120S). These instructions are available, separately from Schedule K-1, at most IRS offices.

General Instructions

The corporation is liable for taxes on lines 25a, b, and c, page 1, Form 1120S. Shareholders are liable for income tax on their share of the corporation's income (reduced by any taxes paid by the corporation on income) and must include their share of the income on their tax return whether or not it is distributed to them. Unlike partnership income, S corporation income reported to shareholders on Schedule K-1 is **not** self-employment income and is not subject to self-employment tax.

The total distributive share items (column (b)) of all Schedules K-1 should equal the amount reported on the same line of Schedule K. Lines 1 through 14 of Schedule K and K-1 are the same. Other lines are not the same, but instructions will explain the differences.

Substitute Forms

You do not need IRS approval to use a substitute Schedule K-1 if it is an exact facsimile of the IRS schedule, **or** if it contains only those lines the taxpayer is required to use, and the lines have the same numbers and titles and are in the same order as on the comparable IRS Schedule K-1. In either case, your substitute schedule must include the OMB number and the Shareholder's Instructions for Schedule K-1 (Form 1120S).

Other substitute Schedules K-1 require approval. You may apply for approval of a substitute form by writing to: Internal Revenue Service, Attention D:R:R, 1111 Constitution Avenue, NW, Washington, DC 20224.

You may be subject to a penalty if you file a substitute Schedule K-1 that does not conform to the specifications of Rev. Proc. 85-3, I.R.B. 1985-2, 14.

Shareholder's Distributive Share Items

Items of income, loss, deductions, etc. are allocated to a shareholder on a daily basis, according to the number of shares of stock held by the shareholder on each day during the tax year of the corporation. See item A in the **Line-by-Line Instructions.**

A transferee shareholder (rather than the transferor) is considered to be the owner of stock on the day it is transferred.

Special rule—If a shareholder terminates his or her interest in a corporation during the tax year, the corporation, with the concurrence of all shareholders (including the one whose interest is terminated), may elect to allocate income and expenses, etc. as if the corporation's tax year consisted of 2 tax years, the first which ends on the date of the shareholder's termination. To make the election, the corporation must file a statement of election with the return for the tax year of election and attach a statement of consent signed by all shareholders. If the election is made, write "Section 1377(a)(2) Election Made" at the top of each Schedule K-1. See section 1377(a)(2) and temporary regulations section 18.1377-1 for details.

Specific Instructions

(Schedule K only)

Enter the total distributive amount for each applicable item listed.

Note: You do not have to complete certain lines on Schedule K. Completion of the lines is optional because the amounts for these lines appear elsewhere on Form 1120S or on other IRS forms or IRS schedules attached to Form 1120S. Although you do not have to complete the optional lines on Schedule K, you have to complete these lines on Schedule K-1 (Form 1120S). The optional lines are:

Line 1. Ordinary income (loss).

Line 8. Expense deduction for recovery property.

Line 10. Jobs credit.

Line 11. Other credits (If the other credits appear elsewhere on an IRS Form or Schedule that is attached to Form 1120S).

(Schedule K-1 only)

On each Schedule K-1, enter the names, addresses, and identifying numbers of the shareholder and corporation, complete items A, B, and C and enter the shareholder's distributive share of each item. Schedule K-1 must be prepared and given to each shareholder on or before the day on which Form 1120S is filed.

Line-by-Line Instructions

Note: *Actual dividend distributions paid out of accumulated earnings and profits of the S corporation are not reported on Schedule K-1. However, these dividends are reported to shareholders on Form 1099-DIV. These distributions do not increase or decrease a shareholder's basis in stock.*

Item A (Schedule K-1 only).—If there was no change in shareholders or in the relative interest in stock the shareholders owned during the tax year, enter the percentage of total stock owned by each shareholder during the tax year. For example, if shareholders X and Y each owned 50% for the entire tax year, enter 50% in item A for each shareholder. Each shareholder's distributive share items (lines1–19 of Schedule K-1) are figured by multiplying the annual amount on the corresponding line of Schedule K by the percentage in A.

If there was a change in stock ownership during the tax year, each shareholder's percentage of ownership is weighted for the number of days in the tax year that stock was owned. For example, A and B each held 50% for half the tax year and A, B, and C held 40%, 40% and 20% respectively for the remaining half of the tax year. The percentage of ownership for the year for A, B, and C is figured as follows and is then entered in item A.

	a.	b.	c. (a × b)	
	% of total stock owned	% of tax year held	% of ownership for the year	
A	50% 40	50% 50	25% + 20	45%
B	50 40	50 50	25 + 20	45%
C	20	50	10	10%
Total				100%

If there was a change in stock ownership during the tax year, each shareholder's distributive share items (lines 1–19 of Schedule K-1) are figured on a daily basis, based on the percentage of stock held by the shareholder on each day. See section 1377(a)(1) and (2) for details.

Item B (Schedule K-1 only).—Enter the Internal Revenue Service Center address where the tax return, to which a copy of this K-1 was attached, was or will be filed.

Item C (Schedule K-1 only).—Enter the tax shelter registration number assigned to the corporation by IRS or provided to the corporation by other pass-through entities.

Line 1.—Enter ordinary income (loss) from line 24, page 1. If line 24 is a loss, enter the shareholder's full share of the loss. Enter the loss without reference to the adjusted basis of the shareholder's stock in the corporation or the shareholder's amount at risk. Line 1 should reflect the total ordinary income (loss) from all business operations, including section 465 at risk activities and income (loss) from other activities.

If the corporation is involved in more than one business activity and has a section 465 at risk activity loss(es), the corporation must show section 465 loss(es) separately. This separate reporting is to assist the shareholder in determining the allowable loss to claim on his or her tax return.

Line 2.—Enter the qualifying dividends received from other domestic corporations for which each shareholder is entitled to an exclusion under section 116. The investment companies will tell the S corporation what part, if any, of the dividends qualify for the exclusion. (See the instructions for Form 1120S, page 1, line 4.)

Line 5.—Enter net gain (loss) under section 1231. Do not include net gains or losses from involuntary conversions due to casualties or thefts on this line. Instead, report them on line 6.

Note: *If there was a gain (loss) from a casualty or theft to property not used in a trade or business or used for income producing purposes, do not complete Form 4684 for this type of casualty or theft. Instead, provide each shareholder with the needed information to complete their own Form 4684 for their portion of this casualty or theft.*

Line 6.—Enter any other items of income or loss not included on lines 1–5, such as:

a. Wagering gains and losses (section 165(d)).

b. Recoveries of bad debts, prior taxes, or delinquency amounts (section 111).

c. Any gain or loss (where the corporation was a trader or dealer in section 1256 contracts or property related to such contracts. See sections 1256(f) and 1374(c)(4).

d. Net gain (loss) from involuntary conversions due to casualty or theft.

Line 7.—Enter the total amount of charitable contributions paid by the corporation during its tax year. Attach an itemized list that separately shows the corporation's charitable contributions subject to the 50%, 30%, and 20% limitations.

If the corporation contributes property other than cash and the aggregate amount of the claimed value exceeds $500, **Form 8283,** Noncash Charitable Contributions, must be completed and attached to the Form 1120S. The corporation must give a copy of its Form 8283 to every shareholder if the value of an item or group of similar items of contributed property exceeds $5,000 even though the amount allocated to each shareholder is $5,000 or less. For property that does not meet the $5,000 filing requirement, the corporation does not have to furnish the shareholders with its Form 8283. However, the corporation must provide shareholders with their share of fair market value for property valued between $500 and $5,000 in order for individual shareholders to complete their own Form 8283. See the Instructions for Form 8283 for more information.

If the corporation made a qualified conservation contribution under section 170(h), also include the fair market value of the underlying property before and after the donation, the type of legal interest contributed, and describe the conservation purpose furthered by the donation. Give a copy of this information to each shareholder.

Line 8.—A corporation may elect to expense part of the cost (up to $5,000) of recovery property that qualifies for investment credit that the corporation purchased this year for use in its trade or business. The corporation may not deduct the section 179 expense, but should report the expense separately on Schedules K and K-1, line 8.

The corporation must specify the item(s) of section 179 property which it elects to treat as an expense and the portion of the cost of each item which is being treated as an expense. Do this on Form 4562 and on a schedule attached to Schedule K-1. Generally, any election made under section 179 may not be revoked except with the consent of the Commissioner of IRS.

Depreciation, amortization, or investment credit may not be taken on any amount for which a deduction is allowed under section 179. See Changes You Should Note on page 1 of these instructions, section 179, and Form 4562 for more information.

Line 9.—Enter any other deductions not included on lines 7 and 8, such as:

a. Amounts (other than investment interest required to be reported on Schedules K and K-1, lines 13a (2) and 13a(3) and the portion of line 13a(1) of Schedules K and K-1 deductible under section 162), paid by the corporation that would be itemized deductions on any of the shareholder's income tax returns if they were paid directly by a shareholder for the same purpose. These amounts include, but are not limited to, expenses under section 212 for the production of income other than from the corporation's trade or business.

b. Any penalty on early withdrawal of savings because the corporation withdrew funds from its time savings deposit before its maturity.

c. Soil and water conservation expenditures (section 175).

d. Expenditures paid or incurred in tax years beginning before January 1, 1986, for the removal of architectural and transportation barriers to the elderly and handicapped which the corporation has elected to treat as a current expense. Do not deduct these expenditures on page 1 of Form 1120S. See section 190.

If there was a gain (loss) from a casualty or theft to property not used in a trade or business or for income producing purposes, provide each shareholder with the needed information to complete **Form 4684**, Casualties and Thefts.

Credits

Line 10.—On Schedule K enter the jobs credit (from attached Form 5884) computed by the corporation. The credit may be claimed only for wages or salaries paid to individuals who began work for the corporation before January 1, 1986. The jobs credit is computed at the corporate level. On Schedule K-1 enter each shareholder's share of the credit. See Form 5884 for definitions, special rules, limitations, and other details on the credit.

Line 11.—The following credits are also figured at the corporate level and then apportioned to persons who are shareholders of the corporation in accordance with stock ownership.

1. Credit for alcohol used as fuel. Complete and attach **Form 6478**, Credit for Alcohol Used as Fuel, to Form 1120S.
2. Orphan drug credit and credit for increasing research activities. Complete and attach Form 6765, Credit for Increasing Research Activities, to Form 1120S.
3. Nonconventional source fuel credit.
4. Unused regular investment credit from cooperatives.
5. Unused energy investment credit from cooperatives.
6. Credit for backup withholding on dividends, interest, or patronage dividends.

The nonconventional source fuel credit is figured by the corporation on a separate schedule prepared by the corporation. This computation schedule must also be attached to Form 1120S. See section 29 for computation provisions and other special rules for figuring this credit.

If the corporation is a member of a cooperative that passes an unused regular investment credit or unused energy investment credit through to its members, these credits are in turn passed through to the corporation's shareholders.

If the corporation has only one of the above 6 credits, enter the amount of the credit in the amount column of line 11 and identify the type of credit in the space to the left of the amount. If the corporation has more than one credit, enter the total credits on line 11 and identify and list the amount(s) of the credits on an attached schedule.

Tax Preference Items

Lines 12a through 12f.—Enter items of income and deductions that are tax preference items. See **Form 6251**, Alternative Minimum Tax Computation, and **Publication 909**, Alternative Minimum Tax, to determine the amounts to enter and for other information.

Do not include as a tax preference item any qualified expenditures to which an election under section 58(i) may apply.

Line 12c.—Do not include any depletion on oil and gas wells. The shareholders must compute their depletion deduction separately under section 613A.

In the case of mines, wells, and other natural deposits, other than oil and gas wells, enter the amount by which the deduction for depletion under section 611 (including percentage depletion for geothermal deposits), is more than the adjusted basis of such property at the end of the tax year. Figure the adjusted basis without regard to the depletion deduction and figure the excess separately for each property.

Lines 12d(1) and 12d(2).—Generally, the amounts to be entered on these lines are not the total corporation income or deductions for oil, gas, and geothermal properties. Generally, they are only the income and deductions included on page 1, Form 1120S, that are used to figure the amount on line 24, page 1, Form 1120S.

If there are any items of income or deductions for oil, gas, and geothermal properties included in the amounts that are required to be passed through separately to the shareholders on Schedule K-1, give each shareholder a schedule for the line on which the income or deduction is included which shows the amount of income or deductions included in the total amount for that line. Do not include any of these direct pass-through amounts on lines 12d(1) or 12d(2). The shareholder is told in the Shareholder's Instructions for Schedule K-1 (Form 1120S) to adjust the amounts on lines 12d(1) and 12d(2) for any other income or deductions from oil, gas, or geothermal properties included in lines 2 through 9 and 17 of Schedule K-1 to determine the total income or deductions from oil, gas, and geothermal properties for the corporation.

Figure the amount for lines 12d(1) and (2) separately for oil and gas properties which are not geothermal deposits and for all properties which are geothermal deposits.

Give the shareholders a schedule that shows the separate amounts that are included in the computation of the amounts on lines 12d(1) and (2).

Line 12d(1). —Enter the aggregate amount of gross income (within the meaning of section 613(a)) from all oil, gas, and geothermal properties received or accrued during the tax year that was included on page 1, Form 1120S.

Line 12d(2). — Enter the amount of any deductions allocable to oil, gas, and geothermal properties reduced by the excess intangible drilling costs that were included on page 1, Form 1120S, on properties for which the corporation made an election to expense intangible drilling costs in tax years beginning before January 1, 1983. Do not include non-productive well costs, or the amounts shown on lines 16a, 16b, 17a, and 17b, page 1, Form 1120S. Instead, use the amounts on lines 16c and 17c, page 1, Form 1120S.

Figure excess intangible drilling costs as follows: From the allowable intangible drilling and development costs (except for costs in drilling a nonproductive well), subtract the amount that would have been allowable if the corporation had capitalized these costs and either amortized them over the 120 months that started when production began, or treated them according to any election the corporation made under section 57(d)(2).

See section 57(a)(11) for more information.

Lines 12e(1) and 12e(2). Qualified Investment Income and Expenses.—Enter the corporation's qualified investment income and expenses from all sources that were included on page 1, Form 1120S. However, do not include as qualified investment expense the amounts shown on lines 16a, 16b, 17a, and 17b, page 1, Form 1120S. Instead, use the amounts on lines 16c and 17c, page 1, Form 1120S. See Form 6251 to determine the amounts to enter.

If there are any items of qualified investment income or expenses included in the amounts that are required to be passed through separately to the shareholders on Schedule K-1, give each shareholder a schedule for the line on which the qualified investment income or expense is included which shows the amount of qualified investment income or expense included in the total amount for that line. Do not include any of these direct pass-through amounts on lines 12e(1) or 12e(2). The shareholder is told in the Shareholder's Instructions for Schedule K-1 (Form 1120S) to adjust the amounts on lines 12e(1) and 12e(2) for any other qualified investment income or expenses included in lines 2 through 9 to determine the total qualified investment income or expense for the corporation.

Generally, investment income is gross income from interest, nonqualifying dividends, rents and royalties, and any other amount treated as ordinary income under sections 1245, 1250, and 1254 that is reported on page 1, Form 1120S.

Generally, investment expenses are those expenses allowable against the production of investment income provided they are allowed in figuring a shareholder's adjusted gross income and not includible as a tax preference item.

Note: *If a shareholder does not actively participate in the management of the corporation, qualified investment income and expenses include income and expenses from the corporation's trade or business. See section 55(e)(8).*

Line 12f.—Attach a schedule which shows each shareholder's share of:

- Amortization of certified pollution control facilities. Enter the amount by which the amortization the corporation took for 1985 is more than the depreciation deduction otherwise allowable.
- Reserves for losses on bad debts of financial institutions. Enter the corporation's share of the excess of the addition to the reserve for bad debts over the reasonable addition to the reserve for bad debts that would have been allowable if the corporation had maintained the bad debt reserve for all tax years based on actual experience.
- Any other applicable tax preference items not shown on lines 12a through 12e.

Investment Interest

Lines 13a through 13c(2).—Enter the interest on investment indebtedness and items of investment income and expenses, and gains and losses from the sale or exchange of investment property.

The interest expense reported on line 13a(1) may also be included on page 1, Form 1120S, line 16c or Schedules K and K-1, line 9. However, the interest expense reported on line 13a(2) and 13a(3) must not appear elsewhere on the return other than on lines 16a and 16b, page 1, Form 1120S. The income and expenses included on lines 13b, 13c, and 13d are reported on Form 1120S and Schedule K-1. For example, interest income included on line 13b is reported on Form 1120S, line 4.

For more information, see **Form 4952**, Investment Interest Expense Deduction.

Line 13a(1).—Enter investment interest expense from all sources on debts created before December 17, 1969, from a specific item of property for a specified term. Also include debts in existence after December 16, 1969, if a binding contract was in effect on that date.

Line 13a(2).—Enter investment interest expense from all sources, from a specific item of property for a specified term, and from debts incurred before September 11, 1975, but after December 16, 1969, that is included on line 16b, page 1, Form 1120S. Also include interest on obligations incurred after September 10, 1975, but subject to a written contract or commitment in effect on September 11, 1975, that is included on line 16b, page 1, Form 1120S.

Line 13a(3).—Enter investment interest expense from all sources from obligations incurred after September 10, 1975, that is included on line 16b, page 1, Form 1120S. Do not include those obligations for which a binding contract was in effect on September 11, 1975.

Note: *The corporation must have an amount on line 16b of page 1, Form 1120S, in order to have an amount shown on either line 13a(2) or 13a(3).*

Line 13b(1).—Enter the corporation's investment income from all sources that was included on page 1, Form 1120S.

Investment income includes the following that are includible in gross income on page 1, Form 1120S: interest, nonqualifying dividends, rents from net lease property, royalties, and amounts recaptured as ordinary income from the sale or exchange of investment property subject to sections 1245, 1250, and 1254 provisions. Investment income generally does not include any amounts connected with a trade or business. See section 163(d)(3).

Caution: The amount to be entered on this line is not the total corporate investment income. It is only the investment income included on page 1, Form 1120S, that is used to figure the amount on line 24, page 1, Form 1120S.

If there are any items of investment income included in the amounts that are required to be passed through separately to the shareholders on Schedule K-1, give each shareholder a schedule for the line on which the investment income is included which shows the amount of investment income included in the total amount for that line. Do not include any of these direct pass through amounts on line 13b(1) of Schedules K and K-1. The shareholder is told in the Shareholder's Instructions for Schedule K-1 (Form 1120S) to adjust the amount on line 13b(1) for any other investment income included in lines 2 through 9 to determine the total investment income for this corporation.

Line 13b(2).—Enter the corporation's investment expenses from all sources that were included on page 1, Form 1120S. **Note:** Do not include the amounts shown on lines 17a and 17b, page 1, Form 1120S. Instead, use the amounts in line 17c, page 1, Form 1120S.

Investment expenses are those deductions directly connected with the production of investment income. Interest is not included in investment expenses for this purpose. Depreciation is limited to the amount figured using the straight-line method. Depletion is limited to an amount based on cost. Investment expenses generally do not include any amounts connected with a trade or business. See section 163(d)(3).

Caution: The amount to be entered on this line is not the total corporate investment expenses. It is only the investment expenses included on page 1, Form 1120S, that are used to figure the amount on line 24, page 1, Form 1120S.

If there are any items of investment expense included in the amounts that are required to be passed through separately to the shareholders on Schedule K-1, give each shareholder a schedule for the line on which the investment expense is included which shows the amount of investment expenses included in the total amount for that line. Do not include any of these direct pass-through amounts on line 13b(2). The shareholder is told in the Shareholder's Instructions for Schedule K-1 (Form 1120S), to adjust the amount on line 13b(2) for any other investment expenses included on lines 2 through 9 to determine the total investment expenses for this corporation.

Lines 13c(1) and (2).—Enter the corporation's income and expenses from net lease property if the expenses for each property subject to a net lease, allowable under sections 162, 163 (without any reduction for the limitations of section 163(d)), 164(a)(1) and (2), and 212, are more than the income produced by this property. Do not include the income or expenses for any property if the income exceeds the expenses.

For a definition of net lease property, see Form 4952.

Foreign Taxes

Lines 14a through 14g.—In addition to the Instructions below, see **Form 1116**, Computation of Foreign Tax Credit-Individual, Fiduciary, or Nonresident Alien Individual, and the related instructions.

Line 14a.—Enter the type of income earned as follows:

- Nonbusiness (section 904(d)) interest income
- Qualified dividends from an IC-DISC or former DISC
- Qualified dividends from a FSC or former FSC
- All other income from sources outside the U.S. (including income from sources in U.S. possessions)

If, for the country or U.S. possession shown on line 14b, the corporation had more than one type of income, enter "More than one type" and attach a schedule for each type of income for lines 14b through 14g.

Line 14b.—Enter the name of the foreign country or U.S. possession. If, for the type of income shown on line 14a, the corporation had income from or paid taxes to more than one foreign country or U.S. possession, enter "More than one foreign country or U.S. possession" and attach a schedule for each country for lines 14a and 14c through 14g.

Line 14c.—Enter in U.S. dollars the total gross income from sources outside the U.S. Attach a schedule that shows each type of income as follows:

- Dividends
- Gross rents and royalties
- Foreign source capital gain net income
- Wages, salaries, and other employee compensation
- Business or profession
- Gross income from trust and estates
- Other (including interest) (specify)

Line 14d.—Enter in U.S. dollars the total applicable deductions and losses. Attach a schedule that shows each type of deduction or loss as follows:

- Expenses directly allocable to business or profession
- Depreciation and depletion directly allocable to rent and royalty income
- Repairs and other expenses directly allocable to rent and royalty income
- Other expenses directly allocable to specific income items (specify)
- Pro rata share of all other deductions not directly allocable to specific items of income
- Losses from foreign sources

Line 14e.—Enter in U.S. dollars the total foreign taxes (described in section 901) that were paid or accrued by the corporation to foreign countries or U.S. possessions. Attach a schedule that shows the date(s) the taxes were paid or accrued, and the amount in both foreign currency and in U.S. dollars, as follows:

- Taxes withheld at source on dividends
- Taxes withheld at source on rents and royalties
- Other foreign taxes paid or accrued

Line 14f.—Enter in U.S. dollars the total reduction in taxes available for credit. Attach a schedule that shows separately the:

- Reduction for foreign mineral income
- Reduction for failure to furnish returns required under section 6038
- Reduction for taxes attributable to boycott operations (section 908)
- Reduction for foreign oil and gas extraction income (section 907(a))
- Reduction for any other items (specify)

Line 14g.—Enter in U.S. dollars any items not covered in lines 14c, 14d, 14e, and 14f.

Property Eligible for Investment Credit

Complete the applicable parts of **Form 3468**, Computation of Investment Credit, and attach it to Form 1120S. See Form 3468 and the related instructions for information on whether property is eligible for the credit, the amount that is eligible for the credit, any adjustment of basis or percentage eligible for the credit and other information.

Note: *Do not include that part of the cost of property the corporation has elected to expense under section 179.*

Complete the applicable parts of Schedule B of Form 3468, showing the corporation's total qualified investment in business energy property that is eligible for the credit. See Schedule B of Form 3468 and the related instructions for more information.

Lines 15a—15i (Schedule K-1 only).—Enter each shareholder's share of the corporation's investment in qualifying property that is eligible for the investment credit.

Attach to each Schedule K-1 a separate schedule that shows each shareholder's share of the corporation's investment in qualified energy property that is eligible for the credit, and where the shareholder should report it on Schedule B of Form 3468.

The corporation must reduce the basis of regular and energy credit property by half of any credit allowable for the property. The basis reduction is not required for regular investment credit property if the corporation elects to take a reduced credit. If the election is made, each shareholder must be notified by completing the appropriate line or lines of lines 15a-15h. See section 48(q) and **Publication 572**, Investment Credit, regarding adjustments to be made to the basis of investment credit property as well as the shareholders' adjusted basis in stock of the corporation.

Line 15i. Other Property.—Attach to each Schedule K-1 a separate schedule that shows each shareholder's share of nonrecovery property, new commuter and used commuter highway vehicle property, and qualified rehabilitation expenditures eligible for the credit. Show on the schedule the amount for each type of property, the line number of Form 3468 on which the amount should be reported, and any additional information that may be needed to complete Form 3468.

The schedule for nonrecovery property should use the format of the worksheet in the Instructions for Form 3468 for nonrecovery property.

Property Subject to Recapture of Investment Credit

Line 16 (Schedule K-1 only).—Complete line 16 when regular or energy investment credit property is disposed of, ceases to qualify or if there is a decrease in the business percentage before the end of the "life-years category" or "recovery period" assigned. For more information, see Form 4255, Publication 572 and section 48(q).

The corporation itself is liable for investment credit recapture in certain cases. See instructions for line 25c, page 1, Form 1120S, for details.

Other Items

Line 15 (Schedule K only).—Enter total dividends paid to shareholders from accumulated earnings and profits contained in retained earnings (lines 23 and 24 of Schedule L). Report these dividends to shareholders on Form 1099-DIV. Do not report them on Schedule K-1.

Line 16 (Schedule K) and Line 17 (Schedule K-1).—Enter total distributions made to shareholders other than dividends reported on line 15 of Schedule K. Noncash distributions of appreciated property are valued at fair market value. See Schedules L and M instructions for ordering rules on distributions.

Line 17 (Schedule K) and Line 19 (Schedule K-1).—Do not put an amount on these lines. Instead, enter on an attached statement the description and the amounts of each shareholder's share of the items listed in (a) through (j) below. Show income or gains as a positive number. Show losses with the number in parentheses.

a. Tax-exempt income realized by the corporation. Corporations should report tax-exempt interest separately to assist shareholders in figuring the taxable portion (if any) of their social security or railroad retirement benefits.

b. Nondeductible expenses incurred by the corporation.

c. Taxes paid on undistributed capital gains by a regulated investment company. As a shareholder of a regulated investment company, the corporation will receive notice on **Form 2439,** Notice to Shareholder of Undistributed Long-Term Capital Gains, that the company paid tax on undistributed capital gains.

d. Gross income and other information relating to oil and gas well properties that are reported to shareholders to allow them to figure the depletion deduction for oil and gas well properties. See section 613A(c)(13) for details.

The corporation cannot deduct depletion on oil and gas wells. The shareholders must determine the allowable amount to report on his or her return. See Publication 535 for more information.

e. Recapture of section 179 expense deduction. Enter the amount that was originally passed through and the corporation's tax year in which it was passed through. Tell the shareholder if the recapture amount was caused by the disposition of the recovery property. See section 179(d)(10) for more information. Do not include this amount on line 8, page 1, Form 1120S.

f. Total qualified expenditures (and the period paid or incurred during the tax year) to which an election under section 58(i) applies. Do not report these expenditures as tax preference items on line 12 of Schedules K and K-1.

g. Intangible drilling costs under section 263(c). See Publication 535 to determine the amount to pass through to each shareholder.

h. Deduction and recapture of certain mining exploration expenditures paid or incurred (section 617).

i. Any information or statements the corporation is required to furnish to shareholders to allow them to comply with requirements under section 6111 (registration of tax shelters) or 6661 (substantial understatement of tax).

j. Any other information the shareholders need to prepare their tax returns.

Schedules L and M

The balance sheets must agree with your books and records. Include certificates of deposit as cash on line 1 of the Schedule L. The following rules apply in determining the balances of lines 23 through 27 of Schedule L and amounts used in figuring lines 1 through 9 of Schedule M.

If Schedule L, column (d), amounts for lines 25, 26, or 27 are not the same as corresponding amounts on line 9 of Schedule M, attach a schedule explaining any differences. For example, the balance of the accumulated adjustments account may differ if Schedule L reflects straight line depreciation and some other method is used for purposes of line 2 of Schedule M. You may show your explanation below Schedule M if there is sufficient space.

Note: *Schedule M does not provide for a reconciliation of book income to tax return income. However, you may want to make your own separate reconciliation of book income or (loss) to return income or (loss). Make sure that all items of income, loss, and deductions reported on page 1, Form 1120S, and on Schedule K of Form 1120S are used in figuring lines 2, 3, 5, 6 and 7 of Schedule M.*

Line 23 and 24.—Generally, the retained earnings accounts contain any accumulated earnings and profits (E&P) of the corporation. If the corporation has accumulated E&P, it must maintain separate equity accounts as explained in the instructions for lines 26 and 27 below. If the accumulated E&P is subchapter C E&P (accumulated prior to the corporation becoming an S corporation) the corporation may be liable for tax imposed on excess net passive income. See instructions for line 25a, page 1, of Form 1120S for details on this tax.

Generally, the corporation's accumulated E&P will not be the same as total retained earnings (line 23 plus 24). If the corporation has accumulated E&P that is subchapter C accumulated E&P, the retained earnings and accumulated E&P will usually not be the same because of the special computation rules in section 312. If the E&P was accumulated after the corporation became an S corporation (small business corporation), section 1377 (as in effect for tax years beginning before 1-1-83) rules apply in figuring accumulated E&P.

Generally, the retained earnings accounts are only maintained if the corporation had a balance in the accounts at the start of its 1985 tax year. If there is a beginning balance for the 1985 tax year, and the accounts contain accumulated E&P, the only adjustments made to accumulated E&P are:

(1) reduce for dividend distributions,

(2) adjustments for redemptions, liquidations, reorganizations, etc., and

(3) reduce for section 47 recapture tax for which the corporation is liable.

See Distributions instruction below regarding distributions from retained earnings and section 1371(c) for other details.

Line 25.—The shareholders' account called undistributed taxable income previously taxed, also called previously taxed income (PTI), is only maintained if the corporation had a balance in this account at the start of its 1985 tax year. If there is a beginning balance for the 1985 tax year, no adjustments are made to the account except to reduce the account for distributions made under section 1375(d) (as in effect before the enactment of the Subchapter S Revision Act of 1982). See Distributions instruction below for the order of distributions from the account.

Each shareholder's right to nontaxable distributions from PTI is personal and cannot be transferred to another person. The corporation is required to keep records of each shareholder's net share of PTI. See regulations section 1.1375-4(d) for more information.

Line 26.—The accumulated adjustments account (AAA) is to be maintained by all S corporations. At the end of the tax year, if the corporation **does not have accumulated E & P,** the AAA is determined by taking into account all items of income, loss, and deductions for the tax year (including nontaxable income and nondeductible losses and expenses). See section 1368 for other details. After the year-end income and expense adjustments are made, the account is reduced by distributions made during the tax year. See the Distributions instruction below for distribution rules.

At the end of the tax year, if the corporation **has accumulated E & P,** the AAA is determined by taking into account the taxable income, deductible losses and expenses, and nondeductible losses and expenses for the tax year. Adjustments for nontaxable income are made to the other adjustments account as explained in the Line 27 instruction below. See section 1368. After the year-end income and expense adjustments are made, the account is reduced by distributions made during the tax year. See the Distributions instruction below for distribution rules.

Note: *The AAA may have a negative balance at year end. See section 1368(e).*

Line 27.—The other adjustments account is maintained only by corporations that **have** accumulated E & P at year end. The account is adjusted for tax-exempt income (and related expenses) of the corporation. See section 1368. After adjusting for tax-exempt income, the account is reduced for any distributions made during the year. See the Distributions instructions below.

Distributions

Generally, property distributions (including cash) are applied to reduce balance sheet equity accounts in the following order:

a. Reduce AAA. If distributions during the tax year exceed the AAA at the close of the tax year, the AAA is allocated pro rata to each distribution made during the tax year. See section 1368(c).

b. Reduce shareholders' PTI account for any section 1375(d) (as in effect before January 1, 1983) distributions.

c. Reduce retained earnings accounts to the extent of accumulated E & P.

d. Reduce the other adjustments account.

e. Reduce any remaining shareholders' equity accounts.

If a section 1368(e)(3) election is made, distributions are made from the retained earnings account before the AAA. If the corporation has PTI and wants to make distributions from retained earnings before PTI, the election under regulations section 1.1375-4(c) must be made. In the case of either election, after all accumulated earnings and profits in the retained earnings are distributed, the above general order of distributions applies except that item **c** is eliminated.

Codes for Principal Business Activity

These industry titles and definitions are based, in general, on the Standard Industrial Classification System authorized by Regulatory and Statistical Analysis Division, Office of Information and Regulatory Affairs, Office of Management and Budget, to classify enterprises by type of activity in which they are engaged.

Using the list below, enter on page 1, under B, the code number for the specific industry group from which the largest percentage of "total receipts" is derived. "Total receipts" means gross receipts (line 1a, page 1) plus all other income (lines 4 through 8, page 1).

On page 2, under H, state the principal business activity and principal product or service that account for the largest percentage of total receipts. For example, if the principal business activity is "Grain mill products," the principal product or service may be "Cereal preparations."

If, as its principal business activity, the corporation (1) purchases raw materials, (2) subcontracts out for labor to make a finished product from the raw materials, and (3) retains title to the goods, the corporation is considered to be a manufacturer and must enter one of the codes (2010-3998) under "Manufacturing."

Agriculture, Forestry, and Fishing

Code

0400	Agricultural production.
0600	Agricultural services (except veterinarians), forestry, fishing, hunting, and trapping.

Mining

Metal mining:

1010	Iron ores.
1070	Copper, lead and zinc, gold and silver ores.
1098	Other metal mining.
1150	Coal mining.

Oil and gas extraction:

1330	Crude petroleum, natural gas, and natural gas liquids.
1380	Oil and gas field services.

Nonmetallic minerals, except fuels:

1430	Dimension, crushed and broken stone; sand and gravel.
1498	Other nonmetallic minerals, except fuels.

Construction

General building contractors and operative builders:

1510	General building contractors.
1531	Operative builders.
1600	**Heavy contruction contractors.**

Special trade contractors:

1711	Plumbing, heating, and air conditioning.
1731	Electrical work.
1798	Other special trade contractors.

Manufacturing

Food and kindred products:

2010	Meat products.
2020	Dairy products.
2030	Preserved fruits and vegetables.
2040	Grain mill products.
2050	Bakery products.
2060	Sugar and confectionery products.
2081	Malt liquors and malt.
2088	Alcoholic beverages, except malt liquors and malt.
2089	Bottled soft drinks, and flavorings.
2096	Other food and kindred products.
2100	**Tobacco manufacturers.**

Textile mill products:

2228	Weaving mills and textile finishing.
2250	Knitting mills.
2298	Other textile mill products.

Apparel and other textile products:

2315	Men's and boys' clothing.
2345	Women's and children's clothing.
2388	Other apparel and accessories.
2390	Miscellaneous fabricated textile products.

Lumber and wood products:

2415	Logging, sawmills, and planing mills.
2430	Millwork, plywood, and related products.
2498	Other wood products, including wood buildings and mobile homes.
2500	**Furniture and fixtures.**

Paper and allied products:

2625	Pulp, paper, and board mills.
2699	Other paper products.

Printing and publishing:

2710	Newspapers.
2720	Periodicals.
2735	Books, greeting cards, and miscellaneous publishing.
2799	Commercial and other printing, and printing trade services.

Code

Chemicals and allied products:

2815	Industrial chemicals, plastics materials and synthetics.
2830	Drugs.
2840	Soap, cleaners, and toilet goods.
2850	Paints and allied products.
2898	Agricultural and other chemical products.

Petroleum refining and related industries (including those integrated with extraction):

2910	Petroleum refining (including integrated).
2998	Other petroleum and coal products.

Rubber and misc. plastics products:

3050	Rubber products: plastics footwear, hose and belting.
3070	Misc. plastics products.

Leather and leather products:

3140	Footwear, except ruboer.
3198	Other leather and leather products.

Stone, clay, and glass products:

3225	Glass products.
3240	Cement, hydraulic.
3270	Concrete, gypsum, and plaster products.
3298	Other nonmetallic mineral products.

Primary metal industries:

3370	Ferrous metal industries; misc. primary metal products.
3380	Nonferrous metal industries.

Fabricated metal products:

3410	Metal cans and shipping containers.
3428	Cutlery, hand tools, and hardware; screw machine products, bolts, and similar products.
3430	Plumbing and heating, except electric and warm air.
3440	Fabricated structural metal products.
3460	Metal forgings and stampings.
3470	Coating, engraving, and allied services.
3480	Ordnance and accessories, except vehicles and guided misslies.
3490	Misc. fabricated metal products.

Machinery, except electrical:

3520	Farm machinery.
3530	Construction and related machinery.
3540	Metalworking machinery.
3550	Special industry machinery.
3560	General industrial machinery.
3570	Office, computing, and accounting machines.
3598	Other machinery except electrical.

Electrical and electronic equipment:

3630	Household appliances.
3665	Radio, television, and communication equipment.
3670	Electronic components and accessories.
3698	Other electrical equipment.
3710	**Motor vehicles and equipment**

Transportation equipment, except motor vehicles:

3725	Aircraft, guided missiles and parts.
3730	Ship and boat building and repairing
3798	Other transportation equipment, except motor vehicles.

Instruments and related products:

3815	Scientific instruments and measuring devices; watches and clocks.
3845	Optical, medical, and ophthalmic goods
3860	Photographic equipment and supplies.
3998	**Other manufacturing products.**

Transportation and Public Utilities

Code

Transportation:

4000	Railroad transportation.
4100	Local and interurban passenger transit.
4200	Trucking and warehousing.
4400	Water transportation.
4500	Transportation by air.
4600	Pipe lines, except natural gas.
4700	Miscellaneous transportation services.

Communication:

4825	Telephone, telegraph, and other communication services.
4830	Radio and television broadcasting.

Electric, gas, and sanitary services:

4910	Electric services.
4920	Gas production and distribution.
4930	Combination utility services.
4990	Water supply and other sanitary services.

Wholesale Trade

Durable:

5008	Machinery, equipment, and supplies.
5010	Motor vehicles and automotive equipment.
5020	Furniture and home furnishings.
5030	Lumber and construction materials.
5040	Sporting, recreational, photographic, and hobby goods, toys and supplies.
5050	Metals and minerals, except petroleum and scrap.
5060	Electrical goods.
5070	Hardware, plumbing and heating equipment and supplies.
5098	Other durable goods.

Nondurable:

5110	Paper and paper products.
5129	Drugs, drug proprietaries, and druggists' sundries.
5130	Apparel, piece goods, and notions.
5140	Groceries and related products.
5150	Farm-product raw materials.
5160	Chemicals and allied products.
5170	Petroleum and petroleum products.
5180	Alcoholic beverages.
5190	Misc. nondurable goods.

Retail Trade

Building materials, garden supplies, and mobile home dealers:

5220	Building materials dealers.
5251	Hardware stores.
5265	Garden supplies and mobile home dealers.
5300	**General merchandise stores.**

Food stores:

5410	Grocery stores.
5490	Other food stores.

Automotive dealers and service stations:

5515	Motor vehicle dealers.
5541	Gasoline service stations.
5598	Other automotive dealers.
5600	**Apparel and accessory stores.**
5700	**Furniture and home furnishings stores.**
5800	**Eating and drinking places.**

Misc. retail stores:

5912	Drug stores and proprietary stores.
5921	Liquor stores.
5995	Other retail stores.

Finance, Insurance, and Real Estate

Code

Banking:

6030	Mutual savings banks.
6060	Bank holding companies.
6090	Banks, except mutual savings banks and bank holding companies.

Credit agencies other than banks:

6120	Savings and loan associations.
6140	Personal credit institutions.
6150	Business credit institutions.
6199	Other credit agencies.

Security, commodity brokers and services:

6210	Security brokers, dealers, and flotation companies.
6299	Commodity contracts brokers and dealers; security and commodity exchanges; and allied services.

Insurance:

6355	Life Insurance
6356	Mutual insurance, except life or marine and certain fire or flood insurance companies.
6359	Other insurance companies.
6411	Insurance agents, brokers, and service.

Real estate:

6511	Real estate operators and lessors of buildings.
6516	Lessors of mining, oil, and similar property.
6518	Lessors of railroad property and other real property.
6530	Condominium management and cooperative housing associations.
6550	Subdividers and developers.
6599	Other real estate.

Holding and other investment companies, except bank holding companies:

6742	Regulated investment companies.
6743	Real estate investment trusts.
6744	Small business investmen companies.
6749	Other holding and investment companies except bank holding companies.

Services

7000	**Hotels and other lodging places.**
7200	**Personal services.**

Business services:

7310	Advertising.
7389	Business services, except advertising.

Auto repair; miscellaneous repair services:

7500	Auto repair and services.
7600	Misc. repair services.

Amusement and recreation services:

7812	Motion picuture production, distribution, and services.
7830	Motion picture theaters.
7900	Amusement and recreation services, except motion pictures.

Other services:

8015	Offices of physicians, including osteopathic physicians.
8021	Offices of dentists.
8040	Offices of other health practitioners.
8050	Nursing and personal care facilities.
8060	Hospitals.
8071	Medical laboratories.
8099	Other medical services.
8111	Legal services.
8200	Educational services.
8300	Social services.
8600	Membership organizations.
8911	Architectural and engineering services.
8930	Accounting, auditing, and bookkeeping.
8980	Miscellaneous services (including veterinarians).

SCHEDULE D
(Form 1120S)
Department of the Treasury
Internal Revenue Service

Capital Gains and Losses

▶ Attach to your tax return.

▶ For Paperwork Reduction Act Notice, see page 1 of Instructions for Form 1120S.

OMB No. 1545-0130

1985

Name	Employer identification number

Part I Short-term Capital Gains and Losses—Assets Held Six Months or Less (one year or less if acquired before 6/23/84)

(a) Kind of property and description (Example, 100 shares of "Z" Co.)	**(b)** Date acquired (mo., day, yr.)	**(c)** Date sold (mo., day, yr.)	**(d)** Gross sales price	**(e)** Cost or other basis, plus expense of sale	**(f)** Gain or (loss) ((d) less (e))
1					

2 Short-term capital gain from installment sales from Form 6252, line 22 or 30	2	
3 Unused capital loss carryover (attach computation)	3	( )
4 Net short-term capital gain or (loss) (combine lines 1, 2, and 3). Enter here and on line 3 of Schedule K of Form 1120S	4	

Part II Long-term Capital Gains and Losses—Assets Held More Than Six Months (more than one year if acquired before 6/23/84)

5					

6 Long-term capital gain from installment sales from Form 6252, line 22 or 30	6	
7 Net long-term capital gain or (loss) (combine lines 5 and 6 and enter here). (Reduce this amount by any applicable tax on line 19 below and enter this amount on line 4 of Schedule K of Form 1120S.)	7	
8 Enter section 1231 gain from line 8b, Form 4797. (See instructions regarding casualties and thefts and the line 8 amount to be entered on Schedule K of Form 1120S.)	8	
9 Net long-term capital gain or (loss) (combine lines 7 and 8)	9	

Part III Summary of Schedule D Gains for Tax Computation Purposes

Note: *If the corporation is liable for the excess net passive income tax (line 25a, page 1, Form 1120S), see line 10 instruction before completing line 10.*

10 Net capital gain—Enter excess of net long-term capital gain (line 9) over net short-term capital loss (line 4). (If more than $25,000, enter here and see instructions for Part IV. If $25,000 or less, enter here and do not complete Part IV as the tax computation does not apply.)	10	

Part IV Tax Computation (See Instructions)

11 Taxable income (See instructions for line 25a, page 1, Form 1120S.)	11	
12 Enter tax on line 11 amount (See instructions for computation of tax.)	12	
13 Net capital gain from line 10	13	
14 $25,000 (statutory minimum)	14	$25,000
15 Subtract line 14 from line 13	15	
16 Enter 28% of line 15	16	
17 Income tax on capital gains—Enter smaller of line 12 or line 16	17	
18 Minimum tax (See instructions—attach Form 4626)	18	
19 Total tax—Add lines 17 and 18. Enter here and on Form 1120S, page 1, line 25b	19	

Instructions

(Section references are to the Internal Revenue Code, unless otherwise noted.)

Purpose of Schedule

Schedule D should be used by corporations to report sales or exchanges of capital assets and gains on distributions to shareholders of appreciated assets that are capital assets (hereafter referred to as distributions).

Sales, exchanges, and distributions of property other than capital assets, including property used in a trade or business, involuntary conversions (other than casualties or thefts), and gain from the disposition of an interest in oil, gas, or geothermal property, should be reported on **Form 4797**, Gains and Losses From Sales or Exchanges of Assets Used in a Trade or Business and Involuntary Conversions. See the instructions for Form 4797 for more information. If property is involuntarily converted because of a casualty or theft, use **Form 4684**, Casualties and Thefts.

Parts I and II

Generally, you should report sales and exchanges (including like-kind exchanges) even though there is no gain or loss. Report gain, but not loss, on a distribution. In Part I report the sale, exchange, or distribution of capital assets held six months or less (1 year or less if acquired before 6/23/84). In Part II report the sale, exchange, or distribution of capital assets held more than 6 months (more than one year if acquired before 6/23/84).

For more information, see **Publication 544**, Sales and Other Dispositions of Assets, and **Publication 589**, Tax Information on S Corporations.

Exchange of like-kind property.—Report the exchange of "like-kind" property on Schedule D or on Form 4797, whichever applies. Report it even though no gain or loss is recognized when you exchange business or investment property for property of "like-kind." For exceptions, see Publication 544.

If you use Schedule D, identify the property you disposed of in column (a). Enter the date you acquired it in column (b), and the date you exchanged it in column (c). Write "like-kind exchange" in column (d). Enter the cost or other basis in column (e). Enter zero in column (f).

Special Rules for the Treatment of Certain Gains and Losses

- **Gain on distributions of appreciated property.**—Except as stated below, gain is recognized by an S corporation on a distribution of appreciated property to shareholders in the same manner as if the property had been sold to the shareholder at its fair market value. Like other capital gains, it is subject to the capital gains tax and is passed through to shareholders.

Exceptions—The above rule does not apply to (1) distributions of property in complete liquidation and (2) distributions in tax-free reorganizations where gain or loss is not recognized by the distributee shareholders.

- **Gain from installment sales.**—Except as explained below, if you sold property at a gain this year and will receive any payment in a later tax year, you must use the installment method to report your gain. You must file **Form 6252**, Computation of Installment Sale Income, to report the sale and gain as payments are received.

If the corporation wants to elect out of the installment method, it must do the following on a timely filed return (including extensions):

(1) Report the full amount of the sale on Schedule D (Form 1120S).

(2) If you received a note or other obligation and are reporting it at less than face value, state that fact in the margin, enter the face amount of the note or other obligation, and give the percentage of valuation.

For additional information, get **Publication 537**, Installment Sales.

- **Gains and losses on section 1256 contracts and straddles.**—Use **Form 6781**, Gains and Losses From Section 1256 Contracts and Straddles, to report gains and losses from section 1256 contracts and straddles. Traders in section 1256 contracts should see sections 1374(c)(4) and 1256(f) for positions established after July 18, 1984.
- **Gain or loss on an option to buy or sell property.**—See section 1234 for the rules that apply to a purchaser or grantor of an option.
- **Gain or loss from a short sale of property.**—Report the gain or loss to the extent that the property used to close the short sale is considered a capital asset in the hands of the taxpayer. A loss from a wash sale of stock or securities or from certain transactions between related persons is not deductible. (Sections 1091 and 267.)
- **Loss from securities that are capital assets that become worthless during the year.**—Except for securities held by a bank, treat the loss as a capital loss as of the last day of the tax year. (See section 582 for the rules on the treatment of securities held by a bank.)

How to Determine the Cost or Other Basis of the Property

In determining gain or loss, the basis of property will generally be its cost (section 1012). The exceptions to the general rule are provided in sections contained in subchapters C, K, O, and P of the Code. For example, if the corporation acquired the property by dividend, liquidation of another corporation, transfer from a shareholder, reorganization, contribution or gift, bequest, bankruptcy, tax-free exchange, involuntary conversion, or wash sale of stock, see sections 301 (or 1059), 334, 362 (or 358), 1015, 1014, 372 (or 374), 1031, 1033, and 1091, respectively. Attach an explanation if you use a basis other than actual cash cost of the property.

If you are allowed a charitable contribution deduction because you sold property to a charitable organization, figure the adjusted basis for determining gain from the sale by dividing the amount realized by the fair market value and multiplying that result by the adjusted basis.

Line 8.—If the corporation has a gain from line 8b of Form 4797, enter it on line 8.

If the line 8 gain is from line 8b of Form 4797, and it contains gain from line 21, Section B, of Form 4684 and other gain or loss under section 1231, enter the gain from Form 4684 on a schedule for line 6 of Schedule K and report the portion that is gain or loss under section 1231 (reduced by any capital gains tax applicable to the gain) on line 5 of Schedule K.

Part III—Summary of Schedule D Gains

If the net long-term capital gain is more than the net short-term capital loss, there is a net capital gain. If this gain exceeds $25,000, the corporation may be liable for an income tax on the gain. Answer the questions in the instructions for Part IV below to determine if the corporation is liable for income tax on the gain.

Line 10.—If the corporation is liable for the tax on excess net passive income (line 25a, page 1, Form 1120S), and capital gain income was included in the computation of the tax, the amount to be entered on line 10 is figured as follows:

1. Reduce the capital gain income reported on lines 1–2 and 5–8 of Schedule D by the portion of the excess net passive income attributable to such gain.

2. Refigure lines 4 and 9 of Schedule D based on the revised amounts from step 1 above.

3. Enter on line 10 the net capital gain (if any) based on revised lines 4 and 9.

See Section 1375(c)(2) for more information.

Part IV—Tax Computation

Section 1374 imposes a tax on certain capital gains of an S corporation.

By answering the following questions, you can determine if you are liable for the tax. If your net capital gain is more than $25,000, and you are not liable for the tax, you must answer questions A through D below as your explanation of why you are not liable for the tax.

If answers to questions A, B, and C or questions A, B, and D are "Yes," the tax applies and you must complete Part IV of Schedule D (Form 1120S). Otherwise, you are not liable for the tax.

Note: Taxable income referred to in questions A and B below is **NOT** the income figured on line 24, page 1, of Form 1120S. See the instruction for "Taxable income" in the instructions for line 25a, page 1, of Form 1120S.

A. Is taxable income more than $25,000? ☐ Yes ☐ No

B. Is net capital gain (line 10, Part III, Schedule D (Form 1120S)) more than $25,000, and more than 50% of taxable income? ☐ Yes ☐ No

C. Have you been other than an S corporation at any time during the 3 tax years just before this year or since existence, if less than 4 years? ☐ Yes ☐ No

D. If the answer to question C is "No," does any long-term capital gain (line 9, Schedule D (Form 1120S)) represent gain from property described in each of items 1, 2, and 3 that follow? ☐ Yes ☐ No

1. Property was acquired during the tax year or within 36 months before the tax year;

2. Property was acquired, directly or indirectly, from a corporation that was not in existence as an S corporation during the tax year or within 36 months before the tax year up to the time of the acquisition; and

3. Property has a substituted basis to you. (A substituted basis is one determined by reference to its basis in the hands of the transferor corporation.)

If the answer to question D is "Yes" and the tax is applicable, multiply by 28% the net capital gain from property described in question D (reduced by any excess net passive income attributable to this gain). See instruction for line 10 and section 1375(c)(2). If this amount is less than the tax figured on line 12, Part IV, enter this amount on line 17, Part IV, and write to the right of the amount, "Substituted basis." Attach the computation of the substituted basis amount to Schedule D . (See section 1374(c)(3).)

For purposes of questions C and D above, a corporation is not considered to be in existence for any tax year before the first tax year in which the corporation has shareholders, acquires assets, or begins business, whichever occurs first.

Line 11.—See Instructions for line 25a, page 1, of Form 1120S regarding computation of taxable income for line 11 of Schedule D. Do **NOT** enter amount from line 24, page 1, Form 1120S.

Line 12.—If the tax computation is applicable, figure the regular corporate income tax below and enter this amount on line 12 of Schedule D.

If the corporation is a component member of a controlled group of corporations, see section 1561 and related regulations for rules on how to allocate the amounts on lines (b), (d), (f), and (h) below. Also, members of a controlled group are treated as one corporation for purposes of figuring the applicability of the tax on line (o) below. If the additional tax applies, each member of the group will pay that tax based on the portion of the $25,000 amount used in each taxable income bracket.

(a) Taxable income per attached schedule (1374(d)) . . . . ______
(b) Enter $25,000 (members of a controlled group, see prior instructions) ______
(c) Subtract line (b) from line (a) . . . ______
(d) Enter line (c) or $25,000, whichever is smaller (members of a controlled group, see prior instructions) . . . ______
(e) Subtract line (d) from line (c) . . . ______
(f) Enter line (e) or $25,000, whichever is smaller (members of a controlled group, see prior instructions) . . . ______
(g) Subtract line (f) from line (e) . . . ______
(h) Enter line (g) or $25,000, whichever is smaller (members of a controlled group, see prior instructions) . . . ______
(i) Subtract line (h) from line (g) . . . ______
(j) Enter 15% of line (b). . . . . ______
(k) Enter 18% of line (d). . . . . ______
(l) Enter 30% of line (f) . . . . ______
(m) Enter 40% of line (h). . . . . ______
(n) Enter 46% of line (i) . . . . ______
(o) Additional tax for large corporation—If taxable income on line (a) exceeds $1,000,000 enter the lesser of 5% of the excess over $1,000,000, or $20,250. (If line (a) is $1,000,000 or less, enter zero.) . . . . ______
(p) Total-Add lines (j) through (o). Enter here and on line 12 . . . . ______

Note: *If for any reason the computation for line 12 is made on a separate schedule, attach the schedule to Schedule D (Form 1120S).*

Line 18.—S corporations are subject to the minimum tax only for the capital gains item of tax preference and only to the extent that the gains are subject to the tax imposed by section 1374. Corporations having such capital gains of more than $10,000 must attach Form 4626 to Form 1120S.

SCHEDULE K-1
(Form 1120S)
Department of the Treasury
Internal Revenue Service

Shareholder's Share of Income, Credits, Deductions, etc.

For calendar year 1985 or tax year beginning ...., 1985 and ending ...., 19...

(Complete a separate Schedule K-1 for each shareholder—See instructions)

OMB No. 1545-0130

1985

Shareholder's identifying number ▶

Shareholder's name, address, and ZIP code

Corporation's identifying number ▶

Corporation's name, address, and ZIP code

A Shareholder's percentage of stock ownership for tax year . . . . ▶ %

B Internal Revenue Service Center where corporation filed its return ▶

C Tax shelter registration number (see instructions) . . . . ▶

		(a) Distributive share items	**(b)** Amount	**(c)** 1040 filers enter the amount in column (b) on:
Income (Losses) and Deductions	1	Ordinary income (loss)		Sch. E, Part II, col. (e) or (f)
	2	Dividends qualifying for the exclusion		Sch. B, Part II, line 4
	3	Net short-term capital gain (loss)		Sch. D, line 4, col. (f) or (g)
	4	Net long-term capital gain (loss)		Sch. D, line 12, col. (f) or (g)
	5	Net gain (loss) under section 1231 (other than due to casualty or theft)		Form 4797, line 1
	6	Other income (loss) (attach schedule)		(Enter on applicable line of your return)
	7	Charitable contributions		See Form 1040 Instructions
	8	Expense deduction for recovery property (section 179 expense)		See Shareholder's Instructions for Schedule K-1 (Form 1120S)
	9	Other deductions (attach schedule)		(Enter on applicable line of your return)
Credits	10	Jobs credit		Form 5884
	11	Other credits (attach schedule)		(Enter on applicable line of your return)
Tax Preference Items	12 a	Accelerated depreciation on nonrecovery real property or 15-year or 18-year real property		Form 6251, line 4c
	b	Accelerated depreciation on leased personal property or leased recovery property other than 15 (or 18)-year real property		Form 6251, line 4d
	c	Depletion (other than oil and gas)		Form 6251, line 4i
	d	(1) Gross income from oil, gas, or geothermal properties		See Form 6251 instructions
		(2) Gross deductions allocable to oil, gas, or geothermal properties		
	e	(1) Qualified investment income included on page 1, Form 1120S		See Shareholder's Instructions for Schedule K-1 (Form 1120S)
		(2) Qualified investment expenses included on page 1, Form 1120S		
	f	Other items (attach schedule)		
Investment Interest	13 a	Interest expense on:		
		(1) Investment debts incurred before 12/17/69		Form 4952, line 1
		(2) Investment debts incurred before 9/11/75 but after 12/16/69		Form 4952, line 15
		(3) Investment debts incurred after 9/10/75		Form 4952, line 5
	b	(1) Investment income included on page 1, Form 1120S		See Shareholder's Instructions for Schedule K-1 (Form 1120S)
		(2) Investment expenses included on page 1, Form 1120S		
	c	(1) Income from "net lease property"		
		(2) Expenses from "net lease property"		
	d	Excess of net long-term capital gain over net short-term capital loss from investment property		Form 4952, line 20
Foreign Taxes	14 a	Type of income ▶		Form 1116, Check boxes
	b	Name of foreign country or U.S. possession ▶		Form 1116, Part I
	c	Total gross income from sources outside the U.S. (attach schedule)		Form 1116, Part I
	d	Total applicable deductions and losses (attach schedule)		Form 1116, Part I
	e	Total foreign taxes (check one): ▶ ☐ Paid ☐ Accrued		Form 1116, Part II
	f	Reduction in taxes available for credit (attach schedule)		Form 1116, Part III
	g	Other (attach schedule)		Form 1116 Instructions

For Paperwork Reduction Act Notice, see page 1 of Instructions for Form 1120S.

Schedule K-1 (Form 1120S) 1985

		(a) Distributive share items			(b) Amount	(c) 1040 filers enter the amount in column (b) on:
Property Eligible for Investment Credit	15	Regular Percentage	Cost or other basis of new recovery property	**a** 3-year		Form 3468, line 1(a)
				b Other		Form 3468, line 1(b)
			Cost or other basis of used recovery property	**c** 3-year		Form 3468, line 1(c)
				d Other		Form 3468, line 1(d)
		Section 48(q) Election to Reduce Credit (instead of adjusting basis)	Cost or other basis of new property	**e** 3-year		Form 3468, line 1(e)
				f Other		Form 3468, line 1(f)
			Cost or other basis of used property	**g** 3-year		Form 3468, line 1(g)
				h Other		Form 3468, line 1(h)
	i	Other property (see instructions for Schedule K-1 in the Instructions for Form 1120S)				See Shareholder's Instructions for Schedule K-1 (Form 1120S)

			A	B	C	
Property Subject to Recapture of Investment Credit	16	Properties:				
	a	Description of property (State whether recovery or nonrecovery property. If recovery property, state whether regular percentage method or section 48(q) election used.)				▨ Form 4255, top
	b	Date placed in service				Form 4255, line 2
	c	Cost or other basis				Form 4255, line 3
	d	Class of recovery property or original estimated useful life				▨ Form 4255, line 4
	e	Date item ceased to be investment credit property				▨ Form 4255, line 8

Other Items	17	Property distributions (including cash) other than dividend distributions reported to you on Form 1099-DIV		See Shareholder's Instructions for Schedule K-1 (Form 1120S)
	18	Amount of loan repayments for "Loans from Shareholders"		
	19	Other items and amounts not included in lines 1 through 18 that are required to be reported separately to each shareholder (attach schedule)	▨	

1985 Department of the Treasury
Internal Revenue Service

Shareholder's Instructions for Schedule K-1 (Form 1120S)

Shareholder's Share of Income, Credits, Deductions, etc.

(For Shareholder's Use Only)

(Section references are to the Internal Revenue Code, unless otherwise noted.)

Purpose of Schedule K-1

The corporation uses Schedule K-1 (Form 1120S) to report to you your share of the corporation's income (reduced by any tax the corporation paid on the income), credits, deductions, etc. Please keep it for your records.

Although the corporation is subject to a capital gains tax and an excess net passive income tax, you, the shareholder, are liable for the income tax on your share of the corporation's income, whether or not distributed, and you must include your share on your tax return. **Your distributive share of S corporation income is not self-employment income and it is not subject to self-employment tax.** Please read **Limitation on Aggregate Losses and Deductions** under line 1 instructions to figure how much of your share of the corporation's loss is deductible.

You, as a shareholder, should use these instructions to help you report the items shown on Schedule K-1 on your tax return.

Where "(attach schedule)" appears next to lines 6, 9, 11, 12f, 14c, 14d, 14f, 14g, and 19, it means you should see the schedule that the corporation has attached (if applicable) for that line item.

The notation "(see instructions for Schedule K-1 in the Instructions for Form 1120S)" next to line 15i is directed to the corporation. You, as a shareholder, should ignore this notation.

Schedule K-1 does not show the amount of actual dividend distributions the corporation paid to you. The corporation must report such amounts totaling $10 or more during the calendar year to you on Form 1099-DIV. You report actual dividend distributions on Schedule B (Form 1040).

General Instructions

Basis in Corporate Stock.—You are responsible for maintaining records to show the computation of your basis in stock of the corporation. Schedule K-1 provides you with information to help you make the computation at the end of each corporate tax year. Your basis in stock is adjusted as follows (this list is not all-inclusive):

Increased for:

(1) All income (including tax-exempt income) reported on Schedule K-1. Note: Taxable income must be reported on your tax return for it to increase your basis.

(2) The excess of the deduction for depletion over the basis of the property subject to depletion.

Decreased for:

(1) Property distributions made by the corporation (excluding dividend distributions reported on Form 1099-DIV and distributions in excess of basis) reported on Schedule K-1, line 17.

(2) All losses and deductions (including nondeductible expenses) reported on Schedule K-1.

Inconsistent Treatment of Items Shown on this Schedule K-1 (and Any Attached Schedule or Similar Statements).—You must treat corporate items on your return consistent with the way the corporation treated the items on its filed return. See sections 6242, 6243, and 6244 for more information.

If your treatment on your original or amended return is (or may be) inconsistent with the corporation's treatment, or if the corporation has not filed a return, you must file **Form 8082**, Notice of Inconsistent Treatment or Amended Return, with your original or amended return to identify and explain the inconsistency (or noting that a corporate return has not been filed).

If you are required to file Form 8082 but fail to do so, you may be subject to a penalty. Also, any deficiency that results from making the treatment of the inconsistent corporate item consistent with the corporate treatment may be assessed immediately.

Errors.—If you believe the corporation has made an error on your Schedule K-1, notify the corporation and ask for a corrected Schedule K-1. Do not change any items on your copy. Be sure that the corporation sends a copy of the corrected Schedule K-1 to the IRS. See above instructions on inconsistent treatment of items on Schedule K-1.

Tax Shelters.—If you receive a copy of **Form 8271**, Investor Reporting of Tax Shelter Registration Number, or if your S corporation is involved in a tax shelter, see the instructions for Form 8271 for the information you are required to furnish the Internal Revenue Service. Attach the completed forms to your income tax return. The tax shelter registration number can be found in item C at the top of your Schedule K-1.

Windfall Profit Tax.—If you are a producer of domestic crude oil, your corporation will inform you of your income tax deduction for windfall profit tax on **Form 6248**, Annual Information Return of Windfall Profit Tax, and not on this Schedule K-1. In addition, generally, you must determine if you are entitled to a refund of overpaid windfall profit tax. See **Form 6249**, Computation of Overpaid Windfall Profit Tax. You will not be notified of any overpayment on this Schedule K-1.

International Boycotts.—Every S corporation that had operations in, or related to, a boycotting country, company, or national of a country, must file **Form 5713**, International Boycott Report. If the corporation did not cooperate with an international boycott and notifies you of that fact, you do not have to file Form 5713, unless you had other boycotting operations.

If the corporation cooperated with an international boycott, it must give you a copy of the Form 5713 that it filed. You also must file Form 5713 to report the activities of the corporation and any other boycott operations of your own. You may lose certain tax benefits if the corporation participated in, or cooperated with, an international boycott. Please see Form 5713 and the instructions for more information.

Elections.—Generally, the corporation decides how to figure taxable income from its operations. For example, it chooses the accounting method and depreciation methods it will use.

However, certain elections are made by you separately on your income tax return and not by the corporation. These elections are made under:

- Section 901 (foreign tax credit);
- Section 617 (deduction and recapture of certain mining exploration expenditures);
- Section 57(c) (net leases);
- Section 163(d)(6) (limitation on interest on investment indebtedness); and
- You may make an election under section 58(i) to deduct ratably over the period of time specified in section 58(i), certain qualified expenditures. For more information, see the instructions for line 19, item f.

Additional Information.—For more information on the treatment of S corporation income, credits, deductions, etc. see **Publication 589**, Tax Information on S Corporations, **Publication 535**, Business Expenses, **Publication 536**, Net Operating Losses and the At-Risk Limits, and **Publication 550**, Investment Income and Expenses.

Specific Instructions

Name, Address, and Identifying Number.—Your name, address, and identifying number, the corporation's name, address, and identifying number, and items A and B should have been entered. If the corporation is involved in a tax shelter, item C will be completed.

Lines 1–19

If you are an individual shareholder, take the amounts shown in column (b) and enter them on the lines on your tax return as indicated in column (c). If you are an estate or trust, report the amounts shown in column (b) as instructed on **Form 1041**, U.S. Fiduciary Income Tax Return.

Note: *The line number references are to forms in use for tax years beginning in 1985. If you are a calendar year shareholder in a fiscal year 1985/1986 corporation, enter these amounts on the corresponding lines of the tax form in use for 1986.*

Caution: If you have losses, deductions, credits, etc., from a prior year that were not deductible or useable because of certain limitations, such as the at-risk rules, they may be taken into account in determining your income, loss, etc., for this year. However, do not combine the prior year amounts with any amounts shown on this Schedule K-1 to get a net figure to report on your return. Instead, report the amounts on your return on a year-by-year basis.

If you have amounts, other than line 1, to report on Schedule E (Form 1040), enter each item on a separate line of Part II of Schedule E, column (e) or (f), whichever applies. Enter any deduction items in column (e).

Line 1. Ordinary Income (Loss).—The amount shown reflects your share of ordinary income (loss) from all corporate business operations, including at-risk activities, without reference to your adjusted basis in stock and debt of the corporation, or the amount you are at-risk.

Limitation on Aggregate Losses and Deductions.—Generally, your deduction for your share of aggregate losses and deductions reported on Schedule K-1 is limited to your basis in stock and debt of the corporation. Your basis in stock is figured at year end. See Basis in Corporate Stock in the General Instructions. Your basis in loans made to the corporation is the balance the corporation now owes you less any reduction for losses in a prior year. See the instructions for line 18. Any loss not allowed for the tax year because of this limitation is available for indefinite carryover, limited to your basis in stock and debt in each subsequent tax year. See section 1366(d) for details.

If you have (1) a loss from any activity (except the holding of real property, other than mineral property) carried on as a trade or business or for the production of income by the corporation, and (2) amounts in the activity for which you are not at risk, you will have to complete **Form 6198,** Computation of Deductible Loss from an Activity Described in Section 465(c), to figure the allowable loss to report on your return.

Generally, your deductible loss from each activity for the tax year is limited to the amount you are at risk for the activity at the end of the corporation's tax year, or the amount of the loss, whichever is less. You are not at risk for the following:

a. Your basis in stock of the corporation or basis in loans you made to the corporation if the cash or other property used to purchase the stock or make the loans was from a source covered by nonrecourse indebtedness or protected against loss by a guarantee, stop-loss agreement, or other similar arrangement, or that is covered by indebtedness from a person who has an interest in the activity or from a related person to a person (other than the taxpayer) having such an interest, other than a creditor.

b. Any cash or property contributed to a corporate activity, or your interest in the corporate activity, that is covered by nonrecourse indebtedness or protected against loss by a guarantee, stop-loss agreement, or other similar arrangement, or that is covered by indebtedness from a person who has an interest in such activity or from a related person to a person (other than the taxpayer) having such an interest, other than a creditor.

Any loss from a section 465 activity not allowed for this tax year will be treated as a deduction allocable to the activity in the next tax year.

Note: *If the corporation sells or otherwise disposes of (1) an asset used in the activity to which the at risk rules apply or (2) any part of its interest in such an activity (or if you sell or dispose of your interest), you must combine the gain or loss on the sale or disposition with the profit or loss from the activity to determine the net profit or loss from the activity. If this is a net loss, it may be limited because of the at-risk rules.*

To help you complete Form 6198, if required, the corporation should tell you your share of the total pre-1976 loss(es) from a section 465(c)(1) activity (i.e., films or video tapes, leasing section 1245 property, farm, or oil and gas property) for which there existed a corresponding amount of nonrecourse liability at the end of the year in which the loss(es) occurred. In addition, you should get a separate statement of income, expenses, etc., for each activity from the corporation.

Line 5. Net Gain (Loss) Under Section 1231 (Other Than Due to Casualty or Theft).—The amount on this line is to be entered on line 1, column (g) or (h), whichever is applicable, of **Form 4797**, Gains and Losses From Sales or Exchanges of Assets Used in a Trade or Business and Involuntary Conversions. You do not have to complete the information called for on columns (b) through (f) of Form 4797. Write "From Schedule K-1 (Form 1120S)" across these columns.

Line 6. Other Income (Loss).—Amounts on this line are other items of income, gain, or loss not included on lines 1-5 such as:

a. Wagering gains and losses (section 165(d)).

b. Recoveries of bad debts, prior taxes, or delinquency amounts (section 111).

c. Gain or loss from section 1256 contracts where the corporation itself was a trader or dealer in section 1256 contracts. This income (loss) is treated as a gain or loss from the sale or exchange of a capital asset. See section 1256(f) and 1402(i).

d. Net gain (loss) from involuntary conversions due to casualty or theft. The corporation will give you a schedule that shows the amounts to be reported on Section B, line 16, columns (B)(i), (B)(ii), and (C) of **Form 4684**, Casualties and Thefts. If there was a gain (loss) from a casualty or theft to property not used in a trade or business or for income producing purposes, you will be notified by the corporation. You must complete Form 4684 for the type of casualty or theft based on the information the corporation provides.

The corporation should give you a description and the amount of your share of each of these items.

Line 7. Charitable Contributions.—The corporation will give you a schedule that shows which contributions it made were subject to the 50%, 30%, and 20% limitations. For further information, see the Form 1040 Instructions.

If property other than cash is contributed, and the fair market value of one item or group of similar items of property exceeds $5,000, the corporation is required to file **Form 8283**, Noncash Charitable Contributions, and give you a copy to attach to your tax return. Do not deduct the amount shown on Form 8283. It is the corporation's contribution. You should deduct the amount shown on line 7, Schedule K-1.

If the corporation provides you with information that the contribution was property other than cash and does not give you a Form 8283, see the Instructions for Form 8283 for filing requirements. A Form 8283 does not have to be filed unless the total claimed value of all contributed items of property exceeds $500.

Line 8. Expense Deduction for Recovery Property (Section 179 Expense).—See Schedule E (Form 1040) instructions for more information.

Line 9. Other Deductions.—Amounts on this line are other deductions not included on lines 7 or 8, such as:

a. Itemized deductions (Form 1040 filers enter on Schedule A (Form 1040)). If there was a gain (loss) from a casualty or theft to property not used in a trade or business or for income producing purposes, you will be notified by the corporation. You must complete Form 4684 for the type of casualty or theft based on the information the corporation provides.

b. Any penalty on early withdrawal of savings.

c. Soil and water conservation expenditures (section 175).

d. Expenditures for the removal of architectural and transportation barriers to the elderly and handicapped which the corporation has elected to treat as a current expense. The expenses are limited by section 190.

The corporation should give you a description and the amount of your share of each of these items.

Line 11. Other Credits.—Amounts on this line are credits other than investment credit and the jobs credit, such as:

- **a.** Credit for backup withholding on dividends, interest income, and other types of income (see Form 1040 instructions on backup withholding under Total Federal Income Tax Withheld).
- **b.** Credit for alcohol used as fuel. Enter this credit on **Form 6478**, Credit for Alcohol Used as Fuel.
- **c.** Nonconventional source fuel credit. Enter this credit on a schedule you prepare yourself to determine the allowed credit to take on your tax return. See section 29 for rules on how to figure the credit.
- **d.** Unused credits from cooperatives.
- **e.** Credit for increasing research activities and the orphan drug credit (enter these credits on **Form 6765**, Credit for Increasing Research Activities).

The corporation will give you a description and the amount of your share of each of these items.

Lines 12e(1) and (2). Qualified Investment Income and Qualified Investment Expenses.—Use the amount on these lines to determine the amount to enter on line 2e(2) of **Form 6251**, Alternative Minimum Tax Computation.

Caution: Generally, the amount shown on each of these lines is not the total qualified investment income or total qualified investment expenses for this corporation. The corporation should attach a schedule which shows the amount of qualified investment income and the amount of qualified investment expenses included in the amount shown in column (b) for lines 2 through 9.

You will have to adjust lines 12e(1) and (2) for any other qualified investment income or qualified investment expenses included in lines 2 through 9 and dividends reported to you on Form 1099-DIV, to determine the total qualified investment income and total qualified investment expenses for this corporation.

To determine the amount to enter on line 2e(2) of Form 6251, add to the amount shown on lines 12e(1) and (2), the qualified investment income and qualified investment expenses from all other sources, including any qualified investment income and qualified investment expenses shown on lines 2 through 9 of this Schedule K-1, and enter the result (but not less than zero) on line 2e(2) of Form 6251.

Note: *The amount on line 1 of Schedule K-1 has already been included in the amount shown on lines 12e(1) and (2).*

Line 13. Investment Interest.—If the corporation paid or accrued interest on debts it incurred to buy or hold investment property, the amount of interest you can deduct may be limited. The corporation should have entered the interest on investment indebtedness; items of investment income and expenses; and gains and losses from the sale or exchange of investment property.

For more information see Publication 550 and **Form 4952**, Investment Interest Expense Deduction.

Note: *Generally, if your total investment interest expense including investment interest expenses from all other sources (including carryovers, etc.) is less than $10,000 ($5,000 if married filing separately), you do not need to get Form 4952. Instead, you may enter the amounts of investment interest expense directly on Schedule A (Form 1040). The corporation will tell you if any of the amounts should be reported on Schedule E (Form 1040).*

Lines 13b(1) and (2). Investment Income and Investment Expenses.—Use the amounts on these lines to determine the amount to enter on lines 2 or 10a of Form 4952.

Caution: Generally, the amount shown on each of these lines is not the total investment income or total investment expenses for this corporation. The corporation should attach a schedule which shows the amount of investment income and the amount of investment expenses included in the amount shown in column (b) for lines 2 through 9.

The amount on line 1 of Schedule K-1 has been included in the amount shown on lines 13b(1) and (2). To determine the amount to enter on Form 4952, add to the amount on lines 13b(1) and (2) the investment income and investment expenses from all other sources including any investment income and investment expenses shown on lines 2 through 9 of this Schedule K-1.

Lines 13c(1) and (2). Income and Expenses from Net Lease Property.—Use the amounts on these lines to determine the net amount to enter on lines 11 and 19 of Form 4952.

Line 15. Property Eligible for Investment Credit.—Your share of the corporation's investment in property that qualifies for the investment credit should be entered. You can claim a tax credit based on your pro rata share of this investment by filing **Form 3468**, Computation of Investment Credit. (For more information, see Form 3468 and the related instructions.)

In addition to the qualifying property reported on lines 15a through 15h, if applicable, the corporation will give you a separate schedule that shows your share of the corporation's investment in nonrecovery property, new commuter highway vehicle, used commuter highway vehicle, qualified rehabilitation expenditures and energy property that qualifies for the credit, and where to report these items.

Line 16. Property Subject to Recapture of Investment Credit.—When investment credit property is disposed of, ceases to qualify or there is a decrease in the percentage of business use before the "life-years category" or "recovery period" assigned, you will be notified. You may have to recapture (pay back) the investment credit taken in prior years. Use the information on line 16 to figure your recapture tax on **Form 4255**, Recapture of Investment Credit. See the Form 3468 on which you took the original credit for other information you need to complete Form 4255.

You may also need Form 4255 if you disposed of more than one-third of your interest in the corporation. See **Publication 572**, Investment Credit, for more information.

Line 17.—Reduce your basis in stock of the corporation by the distributions on line 17. If these distributions exceed your basis in stock, the excess is treated as gain from the sale or exchange of property.

Line 18.—If the line 18 payments are made on indebtedness with a reduced basis, the repayments result in income to you to the extent the repayments are more than the adjusted basis of the loan. See section 1367(b)(2) for information on reduction in basis of a loan and restoration in basis of a loan with a reduced basis. See Revenue Ruling 64-162, 1964-1 (Part 1) C.B. 304 and Revenue Ruling 68-537, 1968-2 C.B. 372 for other information.

Line 19. Other.—If applicable, the corporation will give you a description and the amount of your share for each of the following:

- **a.** Tax-exempt income realized by the corporation. This income is not reported on your tax return but it does increase your basis in stock. Tax-exempt interest earned by the corporation will be stated separately to assist shareholders in figuring the taxable portion (if any) of their social security or railroad retirement benefits.
- **b.** Nondeductible expenses realized by the corporation. These expenses are not deducted on your tax return but decrease your basis in stock.
- **c.** Taxes paid on undistributed capital gains by a regulated investment company. (Form 1040 filers enter your share of these taxes on line 63 of Form 1040, and add the words "from Form 1120S". Also reduce your basis in stock of the S corporation by this tax.)
- **d.** Gross income from oil and gas well property, share of production for the tax year, etc., needed to figure your depletion deduction for oil and gas wells. The corporation should also allocate to you a proportionate share of the adjusted basis of each corporate oil or gas property. The allocation of the basis of each property is made as specified in section 613A(c)(13). See Publication 535 for how to figure your depletion deduction. Also reduce your basis in stock by this deduction (section 1367(a)(2)(E)).
- **e.** Recapture of expense deduction for recovery property (section 179). The corporation will tell you if the recapture of expense deduction for recovery property was caused by the disposition of property.

  The recapture amount is limited to the deduction you took in a prior year. You will have to look at your prior year return(s) to determine the amount that you previously deducted. See Form 4797 for additional information.
- **f.** Total qualified expenditures, and the applicable period paid or incurred during the tax year, to which an election under section 58(i) applies.

You may either deduct the total amount of these expenditures or you may make an election under section 58(i) to deduct them ratably over the period of time specified in section 58(i). If you choose to make the election under section 58(i), the expenditures will not be classified as tax preference items and thus will not be subject to the alternative minimum tax. Make the election on Form 4562.

If you choose not to make the election, deduct the section 58(i) expenditures in full on your return (subject to any other limitations, such as the at-risk or basis limitations). Individual shareholders should enter the deductible amount on Schedule E (Form 1040), Part II, column (e).

If intangible drilling costs or certain mining expenditures are passed through to you, see items g and h before making an election to deduct them under section 58(i).

g. Intangible drilling costs which may be deducted under section 263. See Publication 535 for more information. You may choose to deduct these costs under section 263 or under section 58(i), but not both.

h. Deduction and recapture of certain mining expenditures paid or incurred (section 617). You may choose to deduct section 617 expenditures under section 617 or 58(i), but not both.

i. Any information or statements you need to comply with requirements under section 6111 (registration of tax shelters) or 6661 (substantial understatement of tax liability).

j. Gross farming and fishing income. If you are an individual shareholder, enter this income on Schedule E (Form 1040), Part IV, line 37. Do not report this income elsewhere on Form 1040.

If you are a shareholder that is an estate or trust, report this income to your beneficiaries on line 10 of Schedule K-1 (Form 1041). Do not report it elsewhere on Form 1041.

k. Any other information you may need to file your individual tax return that is not shown elsewhere on Schedule K-1.

Form **1120-W**
(WORKSHEET)
Department of the Treasury
Internal Revenue Service

Corporation Estimated Tax

(Do Not File—Keep for the Corporation's Records)

1986

1	Taxable income expected in the tax year			1	
2	Net capital gain. (If the alternative tax does not apply, enter zero. See instructions for line 18.)			2	
3	Subtract line 2 from line 1			3	
4	Enter the smaller of line 3 or $25,000 (members of a controlled group, see instructions)			4	
5	Subtract line 4 from line 3			5	
6	Enter the smaller of line 5 or $25,000 (members of a controlled group, see instructions)			6	
7	Subtract line 6 from line 5			7	
8	Enter the smaller of line 7 or $25,000 (members of a controlled group, see instructions)			8	
9	Subtract line 8 from line 7			9	
10	Enter the smaller of line 9 or $25,000 (members of a controlled group, see instructions)			10	
11	Subtract line 10 from line 9			11	
12	15% of line 4	12			
13	18% of line 6	13			
14	30% of line 8	14			
15	40% of line 10	15			
16	46% of line 11	16			
17	If line 3 is greater than $1,000,000, enter the lesser of 5% of the excess over $1,000,000, or $20,250 (members of a controlled group, see instructions)	17			
18	Alternative tax on capital gain—28% of line 2 (see instructions)	18			
19	Add lines 12 through 18			19	
20	Estimated tax credits (see instructions)			20	
21	Subtract line 20 from line 19			21	
22	Tax from refiguring a prior year investment credit			22	
23	Total—Add lines 21 and 22			23	
24	Credit for Federal tax on special fuels			24	
25	Estimated tax—Subtract line 24 from line 23			25	
26	Divide line 25 by the number of installments to be paid for the tax year (see instructions). This is the amount due for each installment. *Generally, the corporation may apply its 1985 overpayment, elected as a credit against its 1986 estimated tax, to any installment due.* For exceptions, see Rev. Rul. 77-475, 1977-2 C.B. 476, as modified by Rev. Rul. 84-58, 1984-1C. B. 254			26	

Amended Estimated Tax

If, after the corporation figures and deposits estimated tax, it finds that its estimated tax is much more or less than originally estimated because its economic condition has changed, it should refigure its estimated tax before the next installment. Corporations may use the following lines to figure the remaining installment payments. (See Instructions for exceptions.)

27	Refigured estimated tax for 1986			27	
28	Amount of 1985 overpayment elected as a credit against 1986 estimated tax	28			
29	Earlier estimated tax payments made for 1986 (include only net amounts deposited—do not include the credit taken in line 28)	29			
30	Total amount already paid (add lines 28 and 29)			30	
31	Unpaid balance—Subtract line 30 from line 27			31	
32	Divide the amount on line 31 by the number of remaining installments. This is the amount due for each remaining installment			32	

General Instructions

(Section references are to the Internal Revenue Code.)

A. Who Must Make Estimated Tax Payments.—A corporation must make estimated tax payments if it expects its estimated tax (income tax less credits) to be $40 or more.

B. Underpayment of Estimated Tax.—A corporation that does not pay estimated tax when due may be charged an underpayment penalty for the period of underpayment (section 6655), at a rate determined under section 6621.

C. Overpayment of Estimated Tax.—A corporation that has overpaid its estimated tax may apply for a "quick refund" if the overpayment is:

(1) At least 10% of its expected income tax liability, **and**

(2) At least $500.

To apply, the corporation must file **Form 4466,** Corporation Application for Quick Refund of Overpayment of Estimated Tax, within 2 ½ months after the end of its tax year and before it files its tax return.

Specific Instructions

Lines 4, 6, 8, and 10.— On lines 4, 6, 8, and 10, members of a controlled group (defined in section 1563) enter either the amount from the preceding line or their share of the $25,000 amount, whichever is less.

If no apportionment plan is adopted, the members of the controlled group must share the $25,000 amount in each taxable income bracket equally. For example, controlled group AB consists of corporation A and corporation B. They do not elect an apportionment plan. Therefore, corporation A is entitled to $12,500 (half of $25,000) in each taxable income bracket and corporation B is entitled to $12,500 in each taxable income bracket.

Members of a controlled group may elect an unequal apportionment plan and divide the $25,000 amount in each taxable income bracket in any way they want. They need not divide each taxable income bracket in the same way. Any member of the controlled group may be entitled to all, some, or none of the $25,000 amount in a taxable income bracket, as long as the total for all members of the controlled group is not more than $25,000 in any taxable income bracket.

Line 17.—Members of a controlled group of corporations are treated as one corporation for purposes of figuring the applicability of the additional tax that must be paid by corporations with taxable income in excess of $1,000,000. If the taxable income of the controlled group exceeds $1,000,000, enter the portion of the lesser of: 5% of the excess over $1,000,000, or $20,250, that this member must pay.

Line 18.—If there is a net capital gain (which means the net long-term capital gain is more than the net short-term capital loss), use the alternative method (section 1201) to see if the resulting tax is less than the tax figured using the regular method.

Alternative tax is the total of:

(1) A partial tax figured at graduated tax rates on the taxable income decreased by the net capital gain, **plus**

(2) 28% of the net capital gain.

Line 20.—The estimated tax credits include: the sum of any credits against tax provided by Part IV of Subchapter A of Chapter 1, and overpayment of windfall profit taxes.

Line 25.—Do not consider the minimum tax under section 56 when figuring estimated tax.

Line 26–Time and Amount of Deposits.—Use the following table to determine the due date of deposits and the amount of each installment. *If any date falls on a Saturday, Sunday, or legal holiday, substitute the next regular workday.*

If a corporation's estimated tax is $40 or more, it meets the requirement for making deposits. If this requirement is first met—	The number of installments to deposit is—	And the corporation should deposit the following percentages of the estimated tax by the 15th day of the—			
		4th month	6th month	9th month	12th month
Before the 1st day of the 4th month of the tax year	4	25	25	25	25
After the last day of the 3d month and before the 1st day of the 6th month of the tax year	3		33⅓	33⅓	33⅓
After the last day of the 5th month and before the 1st day of the 9th month of the tax year	2			50	50
After the last day of the 8th month and before the 1st day of the 12th month of the tax year	1				100

Depositary Method of Tax Payment.—Deposit corporation income tax payments and estimated tax payments with a Federal Tax Deposit (FTD) Coupon. Make these tax deposits with either a financial institution qualified as a Depositary for Federal taxes or the Federal Reserve Bank or Branch, for the area where the corporation is located. **Do not** submit deposits directly to an IRS office, otherwise the corporation may be subject to a 5% FTD penalty. Records of deposits will be sent to the IRS for crediting to the corporation's account. See the instructions contained in FTD Coupon Book **(Form 8109)** and **Publication 583,** Information for Business Taxpayers, for more information.

Penalty for Overstated Tax Deposits.—If deposits are overstated, the corporation may be subject to a penalty. See section 6656(b).

Amended Estimated Tax–Exceptions.—If the corporation misses a payment of estimated tax or if it made a mistake which caused an underpayment in earlier installments, it should make an immediate "catch-up" payment.

Form **1120X**
(Rev. October 1985)
Department of the Treasury
Internal Revenue Service

Amended U.S. Corporation Income Tax Return

OMB No. 1545-0132
Expires 8-31-88

For tax year ending in
► ....
(Enter month and year)

Please Type or Print

Name
Employer identification number

Number and street

City or town, state, and ZIP code
Telephone number (optional)
(   )

Enter name and address used on original return (if same as above, write "Same")

Internal Revenue Service Center where original return was filed ►

Fill in Applicable Items and Use Part II to Explain Any Changes

Part I Income and Deductions	**(a)** As originally reported or as adjusted (See Specific Instructions)	**(b)** Net change (Increase or Decrease—explain in Part II)	**(c)** Correct amount
1 Total income (line 11 of Form 1120 or 1120-A)			
2 Total deductions (total of lines 27 and 29, Form 1120, or lines 23 and 25c, Form1120-A)			
3 Taxable income (subtract line 2 from line 1)		▨	
4 Tax (line 31, Form 1120, or line 27, Form 1120-A)			
Payments and Credits			
5a Estimated tax payments (include overpayment in prior year allowed as a credit)			
b Amount of refund applied for on Form 4466			
c Subtract line 5b from line 5a			
6a Tax deposited with Form 7004 (automatic extension of time to file)			
b Tax deposited with Form 7005 (application for additional extension of time to file)			
7 Credit from regulated investment companies			
8 Credit for Federal tax on special fuels and oils			
9 Other payment or refundable credit (specify) ►			

10 Tax deposited or paid with (or after) the filing of the original return

11 Total of lines 5c through 10, column (c)

12 Overpayment, if any, as shown on original return or as later adjusted

13 Subtract line 12 from line 11

Tax Due or Refund

14 **Tax due** (subtract line 13 from line 4, column (c). Make check payable to Internal Revenue Service (see instructions) ►

15 **Refund** (subtract line 4, column (c), from line 13)

Please Sign Here

Under penalties of perjury, I declare that I have filed an original return and that I have examined this amended return, including accompanying schedules and statements, and to the best of my knowledge and belief this amended return is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

► Signature of officer ► Date ► Title

Paid Preparer's Use Only

Preparer's signature ► Date Check if self-employed ► ☐ Preparer's social security no.

Firm's name (or yours, if self-employed) and address ► E.I. NO. ►

ZIP code ►

For Paperwork Reduction Act Notice, see instructions on back.

Part II **Explanation of Changes to Income, Deductions, Credits, etc.** **Enter the line reference from page 1 for which a change is reported, and give the reason for each change. Show any computation in detail. Attach any schedules needed.**

Check here ▶ ☐ if the change is due to a net operating loss carryback, a capital loss carryback, an investment credit carryback, a WIN credit carryback, a jobs credit carryback, a research credit carryback, an employee stock ownership credit carryback or, for tax years beginning after 1983, a general business credit carryback (see section 39).

General Instructions

(Section references are to the Internal Revenue Code.)

Paperwork Reduction Act Notice.— We ask for this information to carry out the Internal Revenue laws of the United States. The information is used to ensure that taxpayers are complying with these laws and to allow us to figure and collect the correct amount of tax. You are required to give us this information.

Purpose of Form.—Use Form 1120X to correct **Form 1120**, U.S. Corporation Income Tax Return, or **Form 1120-A,** U.S. Short-Form Corporation Income Tax Return, as you originally filed it or as it was later adjusted by an amended return, claim for refund, or an examination. Please note that it often takes 3 to 4 months to process Form 1120X.

Do not use this form to apply for a tentative refund or a quick refund of estimated tax.

- For a quick refund of estimated tax, file **Form 4466,** Corporation Application for Quick Refund of Overpayment of Estimated Tax. File Form 4466 only within 2½ months after the end of the tax year and before the corporation files its tax return.
- For a tentative refund due to the carryback of a net operating loss, a net capital loss, unused credits, or overpaid tax resulting from a claim-of-right adjustment under section 1341(b)(1), file **Form 1139,** Corporation Application for Tentative Refund. You may use Form 1139 only if one year or less has passed since the tax year in which the carryback or adjustment occurred.

When to File.—File Form 1120X only after the corporation has filed its original return. Generally, Form 1120X must be filed within 3 years after the date the original return was due or 3 years after the date the corporation filed it, whichever was later. A Form 1120X based on a net operating loss carryback, capital loss carryback, investment credit carryback, WIN credit carryback, jobs credit carryback, a research credit carryback, an employee stock ownership credit carryback, or for tax years beginning after 1983, general business carryback (see section 39), generally must be filed within 3 years after the due date of the return for the tax year of the net operating loss, capital loss or unused credit. Other claims for refund must be filed within 3 years after the date the original return was due, or 3 years after the date the corporation filed it, or 2 years after the date the tax was paid, whichever is later.

Information on Income, Deductions, Tax Computation, etc.—Refer to the instructions for the Form 1120 and related schedules and forms, for the year being amended, concerning the taxability of certain types of income, the allowability of certain expenses as deductions from income, computation of tax, etc.

Note: *Deductions for such items as charitable contributions and dividends received may have to be refigured due to changes made to items of income or expense.*

Where to File.—Mail this form to the Internal Revenue Service Center where the corporation filed its original return.

Specific Instructions

Tax Year.—In the space above the employer identification number, enter the month and year in which the calendar or fiscal year of the tax return you are amending ends.

Lines 1 through 4

Column (a)

Line 1.—Enter the amount from line 11 of the original return, or as later adjusted.

Line 2.—Enter the total of lines 27 and 29, Form 1120, or lines 23 and 25c, Form 1120-A, of the original return, or as later adjusted.

Line 4.—Enter the tax from line 31, Form 1120, or line 27, Form 1120-A, of the original return, or as later adjusted.

Column (b)

Lines 1, 2, and 4.—Enter the increases or decreases you are making. Explain the increase or decrease in Part II. If the change involves an item of income, deduction, or credit that the corporation income tax return or its instructions requires the corporation to support with a schedule, statement, or form, attach the appropriate schedule, statement, or form to Form 1120X.

Column (c)

Lines 1 and 2.—Add the increase in column (b) to the amount in column (a) or subtract the column (b) decrease from column (a). Report the result in column (c). For any item not changed, enter the amount from column (a) in column (c).

Line 4.—Figure the new amount of tax using the taxable income on line 3, column (c). Use Schedule J, Form 1120, or Part I, Form 1120-A, of the original return to make the necessary tax computation.

Line 12. Overpayment.—Enter the amount of overpayment received (or expected to be received) or the amount to be credited to estimated tax, as shown on the original return. That amount must be considered in preparing Form 1120X since any refund due from the original return will be refunded separately (or credited to estimated tax) from any additional refund claimed on Form 1120X.

Line 14. Tax due.—Make the check payable to "Internal Revenue Service" for the amount shown on line 14 and attach it to this form. Do not use the depositary method of payment.

Line 15. Refund.—If the corporation is entitled to a refund larger than the amount claimed on the original return, line 15 will show only the additional amount of refund. This additional amount will be refunded separately from the amount claimed on the original return.

Signature.—The return must be signed and dated by the president, vice president, treasurer, assistant treasurer, chief accounting officer, or any other corporate officer (such as tax officer) authorized to sign. A receiver, trustee, or assignee must sign and date any return required to be filed on behalf of a corporation.

Preparer.—If a corporate officer filled in Form 1120X, the Paid Preparer's space should remain blank. If someone prepares Form 1120X and does not charge the corporation, that person should not sign the return. Certain others who prepare Form 1120X should not sign. See the Form 1120 instructions and **Publication 1045,** Information and Order Blanks for Preparers of Federal Income Tax Returns, for more information on preparers and their responsibilities.

Note: *IRS will figure any interest due and will either include it in the refund or bill the corporation for the interest.*

Form **1310**
(Rev. September 1985)
Department of the Treasury
Internal Revenue Service

Statement of Person Claiming Refund Due a Deceased Taxpayer

OMB No. 1545-0073
Expires 6-30-87

Tax year decedent was due a refund:

Calendar year ______, or other tax year beginning ______, 19___, and ending ______, 19___

Please type or print

Name of decedent	Date of death	**Social security number of decedent**
Name of person claiming refund		
Address (number and street)		
City or town, state, and ZIP code		

I am filing this statement as (check only one box):

A ☐ Surviving spouse, claiming a refund based on a joint return. (See **Death of Taxpayer** in instructions for Form 1040 or Form 1040A.)

B ☐ Decedent's court appointed personal representative. Attach a court certificate showing your appointment. (See instructions on back of form.)

C ☐ Person, other than **A** or **B**, claiming refund for the decedent's estate. Complete Schedule A and attach a copy of the death certificate or proof of death. (See instructions on back of form.)

Please attach requested information and sign below. If you checked Box C, also complete Schedule A.

Schedule A (To be completed only if you checked Box C above.)

	Yes	No
1 Did the decedent leave a will?		
2 a Has a personal representative been appointed by a court for the estate of the decedent?		
b If "No," will one be appointed?		
If 2a or 2b is answered "Yes," do not file this form. The personal representative should file for the refund.	▨	▨
3 As the person claiming the refund for the decedent's estate, will you pay out the refund according to the laws of the State where the dececent was a legal resident?		

If "No," a refund cannot be made until you submit a court certificate showing your appointment as personal representative or other evidence that you are entitled, under State law, to receive the refund.

Signature and Verification

I request a refund of taxes overpaid by or on behalf of the decedent. Under penalties of perjury, I declare that I have examined this claim and to the best of my knowledge and belief, it is true, correct, and complete.

Signature of person claiming refund ▶

Date ▶

For Paperwork Reduction Act Notice, see instructions on back of form.

Form **1310** (Rev. 9-85)

Instructions

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Purpose of Form.—Form 1310 is used to claim a refund on behalf of a taxpayer who has died.

Who Must File.—If you are claiming a refund on behalf of a taxpayer who has died, complete Form 1310 and attach it to the decedent's tax return. However, if you are a surviving spouse filing a joint return with your deceased spouse, you do not have to file Form 1310. See **Death of Taxpayer** in the instructions for Form 1040 or Form 1040A.

Box B.—Check Box B **only** if you are the decedent's court appointed personal representative. For purposes of this form, personal representative means the executor, executrix, administrator, or administratrix of the decedent's estate, as certified or appointed by the court.

You must attach a court certificate showing your appointment. A copy of the decedent's will will not be accepted as evidence that you are the decedent's court appointed personal representative.

Box C.—Check Box C if you are not a surviving spouse claiming a refund based on a joint return, or you have not been appointed by the court as the decedent's personal representative. For example, check Box C if you are a surviving spouse claiming a refund on behalf of your deceased spouse's separate tax return and there is no court appointed personal representative.

If you check Box C, you must complete Schedule A of Form 1310. You must also attach a copy of the death certificate or proof of death. The proof of death may be the original or an authentic copy of a telegram or letter from the Department of Defense notifying the next of kin of the decedent's death while in active service, or a death certificate issued by the Department of Defense.

Form **2106**

Department of the Treasury
Internal Revenue Service (X)

Employee Business Expenses

► **See instructions on back.**
► **Attach to Form 1040.**

OMB No. 1545-0139

1985
54

Your name	Social security number	Occupation in which expenses were incurred

Part I Employee Business Expenses Deductible in Figuring Adjusted Gross Income

1 Vehicle expenses from Part II, lines 15 or 22	1	
2 Parking fees, tolls, and certain other expenses (see instructions)	2	
3 Local transportation including train, cabs, bus, airplane, etc.	3	
4 Travel expenses while away from home overnight including meals, lodging, airplane, car rental, taxi, etc.	4	
5 **Employees who are not outside salespersons:** Enter your expenses, not included on lines 1 through 4, for entertainment, gifts, and other business expenses, up to the amount you were reimbursed by your employer. Use Schedule A (Form 1040) for these expenses that were more than your reimbursement	5	
6 **Outside salesperson's expenses:** Enter your total expenses for entertainment, gifts, and other business expenses not included on lines 1 through 4	6	
7 Add lines 1 through 6	7	
8 Enter reimbursements from employer on this line if the reimbursements were not included on Form W-2	8	
9 If line 7 is more than line 8, enter difference here and on Form 1040, line 25	9	
10 If line 8 is more than line 7, enter difference here and include it on Form 1040, line 7	10	

Part II Vehicle Expenses (Use either your actual expenses or the standard mileage rate.)

Section A.—General Information

		Vehicle 1	Vehicle 2
1 Enter the date vehicle was placed in service	1	/ /	/ /
2 Total mileage vehicle was used during 1985	2	miles	miles
3 Miles included on line 2 that vehicle was used for business	3	miles	miles
4 Percent of business use (divide line 3 by line 2)	4	%	%
5 Average daily round trip commuting distance	5	miles	miles
6 Miles included on line 2 that vehicle was used for commuting	6	miles	miles
7 Other personal mileage (subtract line 6 plus line 3 from line 2)	7	miles	miles

8 Do you (or your spouse) have another vehicle available for personal purposes? ☐ Yes ☐ No
9 If your employer provided you with a vehicle, is personal use during off duty hours permitted? ☐ Yes ☐ No ☐ Not applicable
10 Do you have evidence to support your deduction? ☐ Yes ☐ No. If yes, is the evidence written? ☐ Yes ☐ No

Section B.—Standard Mileage Rate (Do not use this section unless you own the vehicle)

11 Enter the smaller of Part II, line 3 or 15,000 miles	11	miles
12 Subtract line 11 from Part II, line 3	12	miles
13 Multiply line 11 by 21¢ (.21) (see instructions for a fully depreciated vehicle)	13	
14 Multiply line 12 by 11¢ (.11)	14	
15 Add lines 13 and 14. Enter total here and on Part I, line 1	15	

Section C.—Actual Expenses

		Vehicle 1	Vehicle 2
16 Gasoline, oil, repairs, vehicle insurance, etc	16		
17 Vehicle rentals	17		
18 Value of employer-provided vehicle (applies only if included on Form W-2 at 100% fair rental value, see instructions)	18		
19 Add lines 16 through 18	19		
20 Multiply line 19 by the percentage on Part II, line 4	20		
21 Depreciation from Section D, column (f) (see instructions)	21		
22 Add lines 20 and 21. Enter total here and on Part I, line 1	22		

Section D.—Depreciation of Vehicles

(Depreciation can only be claimed for a vehicle you own. If a vehicle is used 50 percent or less in a trade or business, the Section 179 deduction is not allowed and depreciation must be taken using the straight line method. For other limitations, see instructions.)

	Cost or other basis (a)	Basis for depreciation (Business use only—see instructions) (b)	Method of figuring depreciation (c)	Depreciation deduction (d)	Section 179 expense (e)	Total column (d) + column (e) (f)
Vehicle 1						
Vehicle 2						

For Paperwork Reduction Act Notice, see Instructions.

Items You Should Note:

- If you are an employee and claim any deduction for the business use of a vehicle, you must use Form 2106 and complete Part II, Section A, including questions 8 through 10.
- A new section has been added for depreciation of your vehicle. Be sure to read the instructions for new limitations that apply.
- If the vehicle was used more than 50 percent for business in the first year it was placed in service, and used 50 percent or less in a later year, part of the depreciation and Section 179 deduction will have to be recaptured in the later year. Figure the amount to be recaptured on Form 4797.

Instructions

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Who Must File.—File this form if you are an employee and are deducting the following expenses attributable to your job:

- Travel and transportation expenses.
- Outside salesperson expenses.
- For employees, other than outside salespersons, any other business expenses but only up to the amount of employer reimbursements.

Exception:You need not complete this form if you account to your employer by means of an account book, diary or similar statement, and your business expenses are equal to your reimbursement.

For deduction of education expenses as a business expense, including transportation, see **Publication 508**, Educational Expenses.

Line-by-Line Instructions

Part I

For lines 1 through 4 and 6, enter the total expenses applicable to each of those lines. For line 5, only enter the expenses up to the amount of your employer's reimbursement.

Line 2.—Enter any parking fees or tolls you paid in connection with using your vehicle for business. If you purchased the vehicle this year, and paid sales tax, multiply Part II, line 4 by the total sales tax, and include the result on this line. If you paid interest on the vehicle, multiply Part II, line 4 by that interest and include the result on this line. The remaining sales tax and interest should be deducted on Schedule A (Form 1040).

Line 3.—If you use transportation, other than a vehicle, for business, such as a taxicab, bus, or train, enter the cost. Also, enter any airplane fares that did not involve overnight travel. Do not include transportation while commuting to and from work.

Line 4.—Enter your meals, lodging, and transportation expenses paid while traveling away from your tax home overnight on business including temporary business assignments.

Instead of actual cost, you may include your expenses for meals at $14 a day when you are in one general area less than 30 days and at $9 a day if you are in one general area 30 days or more. Get **Publication 463**, Travel, Entertainment, and Gift Expenses, for more details.

Lines 5 and 6.—You are an outside salesperson if you do your selling away from your employer's place of business. You are not an outside salesperson if your main duties are service and delivery or if you sell at your employer's place of business. If you are reimbursed by your employer one amount to cover travel or transportation expenses as well as other business expenses, allocate your reimbursement for purposes of line 5. See Publication 463 for details.

Line 8.—Do not include reimbursements on this line if included on Form W-2.

Part II

If you used 2 vehicles for business during the year, use a separate column for each vehicle in Sections A and C. If more than 2, attach a computation following the format in Sections A and C.

If you first start using a vehicle for your job in 1985, see Publication 463.

Line 2.—Enter the total mileage each vehicle was driven for all purposes during the year.

Line 5.—Enter your average daily round trip commuting distance. If you go to a different business location each day, figure the average. Commuting mileage is the mileage from home to your first stop and from your last stop to home even if you do not go to the same location each day, or whether or not you are self-employed.

Line 6.—You may figure your total commuting mileage, by multiplying line 5 by the number of days during the year you used each vehicle to and from work.

Section B—Standard mileage rate.—You may use the standard mileage rate instead of using actual expenses in figuring the deductible costs of operating a passenger car, including a van, pick-up or panel truck. You cannot use the standard mileage rate if you ever took depreciation on that car using a method other than straight line. For a car placed in service after 1980, you may not use the standard mileage rate unless you used that method the first year you start using the car for business. If you listed more than one vehicle on line 3, get Publication 463.

Line 13.—If your vehicle is fully depreciated, multiply line 11 by 11¢ a mile (.11) instead of 21¢. A vehicle is considered fully depreciated after 60,000 miles of business use at the maximum standard mileage rate.

Line 16.—Enter your total expenses for gasoline, oil, repairs, insurance, tires, license plates, or similar items.

Line 17.—If you rented or leased a vehicle during the year instead of using one that you own, enter the cost of renting. However, you may have to include an amount in income. See Publication 463. Also, include on this line any temporary vehicle rentals, such as when your car was being repaired.

Line 18.—If your employer provided you a vehicle during the year, that you used for business, and included the value on your Form W-2 at 100 percent of the fair rental value, enter that amount on this line. If less than the full rental value was included on your W-2, such as where your employer reduced the value for business use, do not include any amount on this line but see Publication 463.

Section D.—Depreciation

Depreciation is an amount you can deduct over a certain number of years. In some cases, you may elect to expense, under Internal Revenue Code Section 179, part of your vehicle in the year of purchase. For more information on depreciation and the Section 179 deduction, including the limitations and their effective dates, get Publication 534, Depreciation. Also, get Form 3468 for information on investment credit.

Limitations.—For purposes of figuring the amounts to enter in columns (d), (e), and (f):

- *Vehicles placed in service after April 2, 1985* —Depreciation plus Section 179 deduction is limited to $3,200 multiplied by the percent of business use (line 4, Part II).
- *Vehicles placed in service after June 18, 1984 and before April 3, 1985* .—Depreciation plus Section 179 deduction is limited to $4,000 the first year, multiplied by Part II, line 4, and $6,000 the second year, multiplied by Part II, line 4.

Column (a).—Enter the vehicle's actual cost or other basis. If you traded in your vehicle, see Publication 463 for the computation of basis.

Column (b).—Multipy column (a) by the percentage in Part II, line 4. From that result, subtract any Section 179 expense, and one-half of investment credit taken (unless you took the reduced credit).

Column (c).—Vehicles placed in service after 1980 - Use one of the following methods for figuring depreciation under ACRS:

Method 1. Enter "ACRS" and 25%, the first year placed in service; 38%, the second year; and 37%, the third year; or

Method 2. Enter "SL" and your choice of 3, 5, or 12 years; or

Method 3. You must use this method if the vehicle was placed in service after June 18, 1984, and Part II, line 4 shows 50% or less. Enter "SL" and 10%, the first year; and 20%, the second year.

Column (d).—Multiply column (b) by column (c) unless you used method 2 above. In that case divide column (b) by column (c).

Column (e).—If this is the first year the vehicle was placed in service, and you are taking a deduction under Section 179, enter the cost or other basis multiplied by Part II, line 4, but not more than the limitation listed above. If Part II, line 4 shows 50 percent or less, enter zero.

Column (f).—Add columns (d) and (e), but do not enter more than the limitation listed above. If you sold or exchanged your vehicle during the year, enter zero in column (f) for that vehicle.

Form **2119**

Department of the Treasury
Internal Revenue Service (X)

Sale or Exchange of Principal Residence

▶ See instructions on back.

▶ Attach to Form 1040 for year of sale (see instruction B).

OMB No. 1545-0072

1985

21

Name(s) as shown on Form 1040.

Your social security number

Do not include expenses that you deduct as moving expenses.

1 a Date former residence sold ▶

b Enter the face amount of any mortgage, note (for example, second trust), or other financial instrument on which you will receive periodic payments of principal or interest from this sale ▶

		Yes	No
2 a	If you bought or built a new residence, enter date you occupied it; otherwise enter "None" ▶		
b	Are any rooms in either residence rented out or used for business for which a deduction is allowed? (If "Yes," see instructions)		
3 a	Were you 55 or over on date of sale?		
b	Was your spouse 55 or over on date of sale? If you answered "No" to 3a and 3b, do not complete 3c through 3f and Part II.		
c	Did the person who answered "Yes" to 3a or 3b own and use the property sold as his or her principal residence for a total of at least 3 years (except for short absences) of the 5-year period before the sale?		
d	If you answered "Yes" to 3c, do you elect to take the once in a lifetime exclusion of the gain on the sale?		
e	At time of sale, was the residence owned by: ☐ you, ☐ your spouse, ☐ both of you?		
f	Social security number of spouse, at time of sale, if different from number on Form 1040 ▶ (Enter "None" if you were not married at time of sale.)		

Part I Computation of Gain

4 Selling price of residence less expense of sale. (Do not include personal property items.)	4	
5 Basis of residence sold	5	
6 Gain on sale (subtract line 5 from line 4). If zero or less, enter zero and do not complete the rest of form. Enter the gain from this line on Schedule D, line 2 or 10*, unless you bought another principal residence or checked "Yes" to 3d. Then continue with this form	6	

If you haven't replaced your residence, do you plan to do so within the replacement period? (If "Yes" see instruction B.) ☐ Yes ☐ No

Part II Age 55 or Over One-Time Exclusion

Complete this part only if you checked "yes" to 3(d) to elect the once in a lifetime exclusion; otherwise, skip to Part III.

7 Enter the smaller of line 6 or $125,000 ($62,500, if married filing separate return)	7	
8 Gain (subtract line 7 from line 6). If zero, do not complete rest of form. Enter the gain from this line on Schedule D, line 10*, unless you bought another principal residence. Then continue with this form	8	

Part III Gain To Be Postponed and Adjusted Basis of New Residence

Complete this part if you bought another principal residence.

9 Fixing-up expenses (see instructions for time limits)	9	
10 Adjusted sales price (subtract line 9 from line 4)	10	
11 Cost of new residence	11	
12 Gain taxable this year (subtract line 11 plus line 7 (if applicable) from line 10). If result is zero or less, enter zero. Do not enter more than line 6 or line 8 (if applicable). Enter the gain from this line on Schedule D, line 2 or 10*.	12	
13 Gain to be postponed (subtract line 12 from line 6. However, if Part II applies, subtract line 12 from line 8)	13	
14 Adjusted basis of new residence (subtract line 13 from line 11)	14	

***Caution:** If you completed Form 6252 for the residence in 1a, do not enter your taxable gain from Form 2119 on Schedule D.

For Paperwork Reduction Act Notice, see back of form.

Form **2119** (1985)

Instructions

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

A. Who Must File.—Use Form 2119 to report gain from selling your principal residence, whether or not you buy another. A loss is not deductible. Use this form to postpone gain and make the one-time election to exclude it from your income. All filers must complete lines 1 through 6 except as explained in Instruction B.

If you sold your residence on the installment method, complete **Form 6252,** Computation of Installment Sale Income, in addition to Form 2119.

For more information, see **Publication 523,** Tax Information on Selling Your Home.

Principal Residence.—Postponement or exclusion of gain applies only to the sale of your principal residence. Usually, the home where you live is your principal residence. It can be, for example, a house, houseboat, housetrailer, cooperative apartment, or condominium. If you have more than one residence, your principal residence is the one you physically occupy most of the time.

B. When to File.—File Form 2119 for the year of sale whether or not you replaced your principal residence.

In the following cases file 2 Forms 2119:

If you plan to replace your residence but have not done so by the time you file your return, and the replacement period has not expired, attach Form 2119 to Form 1040 for the year of sale. In this case complete lines 1, 2 and Part I only, but do not include the gain on Schedule D. If you replace your residence after you file your return, within the replacement period, and the new residence costs as much as the adjusted sales price of your old residence, write to notify the Director of the Internal Revenue Service Center where you filed your return. Attach a new Form 2119 for the year of sale.

If you replace your residence after you file your return, within the replacement period, and the new one costs less than the adjusted sales price of the old one, or you do not replace it within the replacement period, file **Form 1040X,** Amended U.S. Individual Income Tax Return, with a Schedule D and a new Form 2119 for the year of sale. Show the gain then. Interest will be charged on the additional tax due.

If you paid tax on the gain from selling your old residence and then buy a new one within the replacement period, file Form 1040X with Form 2119 to claim a refund.

C. Excluding Gain from Income (Part II).—You can elect to exclude from your income part or all of the gain from the sale of your principal residence if you meet the following tests:

1. You were 55 or over on the date of the sale.
2. Neither you nor your spouse has already elected this exclusion.
3. You owned and occupied your residence for periods totaling at least 3 years within the 5 years ending on the date of sale.

The exclusion election is a once-in-a-lifetime election, so you may choose not to make it now.

The gain excluded from your income is never taxed. The rest of your gain is taxed in the year of sale, unless you replace the residence and postpone that part of the gain. Generally, you can make or revoke the exclusion election within 3 years from the date the return for the year you sold the residence was due, including extensions. Use Form 1040X to amend your return.

Married Taxpayers.—If you and your spouse own the property jointly and file a joint return, only one of you must meet the age, ownership, and use tests for electing the exclusion. If you do not own the property jointly, the owner must meet these tests, regardless of your filing status on Form 1040.

If you are married at the time of sale, both you and your spouse must make the election to exclude the gain. If you do not file a joint return with that spouse, that spouse must consent to the election by writing in the bottom margin of Form 2119 or on an attached statement, "I consent to Part II election," and signing.

The election does not apply separately to you and your spouse. If you and your spouse make an election during marriage and later divorce, no further elections are available to either of you or to your new spouse if you remarry.

D. Postponing Gain on Sale of Principal Residence (Part III).—You may have to postpone gain if you buy or build, and occupy another principal residence within 2 years before or after the sale.

If, after you sell your old residence, you are on active duty in the U.S. Armed Forces for more than 90 days, or you live and work outside the U.S., see Publication 523 for a longer replacement period.

If you sell the new residence in a later year and do not replace it, the postponed gain will be taxed then. If you do replace it, you may continue to postpone the gain. If you change your principal residence more than once during the replacement period, only the last residence you bought qualifies as your new residence for postponing gain, unless you sold the residence because of a job relocation and are allowed a moving expense deduction.

E. Applying Separate Gain to Basis of New Residence.—If you own the old residence separately, but you and your spouse own the new residence jointly (or vice versa) you and your spouse may elect to divide the gain and the adjusted basis if both of you:

1. use the old and new residences as your principal residence; and
2. sign a consent that says, "We consent to reduce the basis of the new residence by the gain from selling the old residence." Write this statement in the bottom margin of Form 2119 or on an attached sheet, and sign it. If you both do not sign the consent, determine the recognition of gain in the regular way with no division.

Line-By-Line Instructions

Line 2b. If you rent out any rooms, or use a portion of your residence for business, for which a deduction is allowed, do not include that portion on this form. Instead, include that part of the gain on Form 4797.

Line 4. Selling Price of Residence less expense of sale.—Enter the amount of money you received, the amount of all notes, mortgages, or other liabilities to which the property was subject, and the fair market value of any other property you received.

Reduce the selling price by any expense of sale such as sales commissions, advertising expenses, attorney and legal fees, etc., incurred in order to sell the old residence. Loan charges, such as "loan placement fees" or "points" charged the seller are selling expenses.

Note: *Report interest from a note as income for the tax year in which the interest is received.*

Line 5. Basis of Residence Sold.—Include the original cost of the property, commissions, and other expenses incurred in buying it, plus the cost of improvements. Subtract any casualty loss or energy credit you took on the residence, and the postponed gain on the sale or exchange of a previous principal residence. For more information, see **Publication 551,** Basis of Assets.

Line 9. Fixing-up Expenses.—These are decorating and repair expenses incurred only to help sell the old property. You must have incurred them for work performed within 90 days before the contract to sell was signed, and paid for within 30 days after the sale. Do not include capital expenditures for permanent improvements or replacements that are added to the basis of the property sold.

Line 11. Cost of New Residence.—The cost of your new residence includes one or more of the following:

(a) cash payments;
(b) the amount of any mortgage or other debt on the new residence;
(c) commissions and other purchase expenses you paid that were not deducted as moving expenses;
(d) construction costs (when you build your own residence) made within 2 years before and 2 years after the sale of the old residence;
(e) if you buy rather than build your new residence, all capital expenditures made within 2 years before and 2 years after the sale of the old residence.

Form **2120**
(Rev. August 1984)

Department of the Treasury—Internal Revenue Service

Multiple Support Declaration

OMB No. 1545-0071
Expires 8-31-86

During the calendar year 19..........., I paid more than 10% of the support of

....
(Name of person)

I could have claimed this person as a dependent except that I did not pay more than 50% of his or her support.

I understand that this person is being claimed as a dependent on the income tax return of ....
(Name)

....
(Address)

I agree not to claim an exemption for this person on my Federal income tax return for any tax year that began in this calendar year.

.... (Your signature)

.... (Your social security number)

.... (Date)

.... (Address)

For Paperwork Reduction Act Notice, see back of form.

Form **2120** (Rev. 8-84)

Instructions

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Purpose of Form.—Form 2120 is used to show that a person who is supported by a group of individual taxpayers during a tax year will not be claimed as a dependent on more than one individual tax return for that tax year.

Who Must File.—Each member of the group who paid more than 10% of the support of the person (other than the taxpayer who is claiming the person as a dependent) must complete a separate Form 2120 and give it to the taxpayer who is claiming the person as a dependent. The taxpayer who is claiming the person as a dependent **must** attach the completed Forms 2120 to his or her tax return.

When to File.—The taxpayer who is claiming the person as a dependent should attach the completed Forms 2120 to his or her tax return for the tax year for which the person is being claimed.

General Information.—If two or more persons together paid more than 50% of the support of an individual for a calendar year and each could claim that person as a dependent except that they did not individually pay more than 50% of the support, one of the contributors can claim the person as a dependent if:

(1) The taxpayer who is claiming the person as a dependent paid more than 10% of the support, **and**

(2) Each contributor (other than the taxpayer claiming the dependent) who paid more than 10% of the support of the dependent agrees not to claim that person as a dependent for any tax year beginning in that calendar year.

The taxpayer who is claiming an exemption for the dependent should be prepared to support the right to claim the exemption if requested.

Form **2210**

Department of the Treasury
Internal Revenue Service (X)

Underpayment of Estimated Tax by Individuals

▶ **See instructions on back**
▶ **Attach to Form 1040**

OMB No. 1545-0140

1985
56

Name(s) as shown on Form 1040

Social security number

Part I Figuring Your Underpayment

1	1985 tax after credits (from Form 1040, line 50)			1	
2	Other taxes (see instructions).			2	
3	Add lines 1 and 2.			3	
4	Earned income credit	4			
5	Credit for federal tax on gasoline and special fuels	5			
6	Credit for overpaid windfall profit tax attributable to amounts withheld	6			
7	Add lines 4, 5, and 6			7	
8	Subtract line 7 from line 3.			8	
9	Multiply line 8 by 80% (.80)	9			
10	Withholding taxes from 1985 Form 1040, lines 57 and 61			10	
11	Subtract line 10 from line 8. If the result is less than $500, do not complete rest of form.			11	
12	Enter your 1984 tax (see instructions)			12	
13	Enter the smaller of line 9 or line 12			13	

			Payment Due Dates			
			(a) Apr. 15, 1985	(b) June 15, 1985	(c) Sept. 15, 1985	(d) Jan. 15, 1986
14	Divide line 13 by four (4) and enter the result in each column	14				
15	Annualized income installment (Complete this line only if you completed the worksheet on back. See instructions.)	15				
16	Enter line 14 (or line 15 if applicable)	16				
17	Estimated tax paid and tax withheld (see instructions)	17				
18	Underpayment (subtract line 17 from line 16) **OR** (Overpayment) (subtract line 16 from line 17)	18				

Part II Figuring the Penalty

19 a	Number of days after payment due date, through the date line 18 was paid or June 30, 1985, whichever is earlier. If June 30 is earlier, enter 76 and 15 respectively.	19a				
b	Number of days after payment due date or June 30, 1985, whichever is later, through the date line 18 was paid or December 31, 1985, whichever is earlier. If December 31 is earlier, enter 184, 184, and 107 respectively	19b				
c	Number of days after payment due date or December 31, 1985, whichever is later, through the date line 18 was paid or April 15, 1986, whichever is earlier. If April 15 is earlier, enter 105, 105, 105, and 90 respectively	19c				
20 a	$\frac{\text{Number of days on line 19a}}{365}$ x 13% x underpayment on line 18	20a				
b	$\frac{\text{Number of days on line 19b}}{365}$ x 11% x underpayment on line 18	20b				
c	$\frac{\text{Number of days on line 19c}}{365}$ x 10% x underpayment on line 18	20c				

21	Penalty (add amounts on lines 20a, b, and c). Check the box below line 68 on Form 1040 and show this amount in the space provided. If you owe tax, add penalty to tax and show total on line 68. If you are due a refund, subtract penalty from overpayment on line 65	21	

For Paperwork Reduction Act Notice, see back of form.

Instructions

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Changes You Should Note

- New rules apply for determining whether you owe a penalty for underpaying your estimated tax. You may owe a penalty if, for 1985, you did not pay at least 80% of your tax liability for the current year or 100% of your tax liability for the preceding year, whichever is less, unless you can establish that lower installments applied based on annualizing your income.

Who Should Use This Form.—Use this form to see if you must pay a penalty for underpaying your estimated tax. Use Part I to see if you prepaid enough tax in each payment period. If you did not, use Part II to figure the penalty for that period.

Note: *You will not have to pay a penalty* ***or complete this form*** *if you had no tax liability for 1984, you were a U.S. citizen or resident during all of 1984, and your 1984 tax return was (or would have been had you been required to file) for a full 12 months. You need not have had income in each month.*

Farmers and Fishermen.—If you meet both the following tests, do not file this form. You do not owe a penalty for underpaying estimated tax.

(1) Your gross income from farming and fishing is at least two-thirds of your annual gross income for 1984 or 1985, and

(2) You filed Form 1040 and paid the entire tax due by March 3, 1986.

If you meet test (1) but not test (2), use **Form 2210F,** Underpayment of Estimated Tax by Farmers and Fishermen, to see if you owe a penalty. If you do not meet test (1), use this form.

Get **Publication 505,** Tax Withholding and Estimated Tax, for the definition of gross income from farming and fishing as well as more information about the penalty.

Line-By-Line Instructions

Line 2.—Other taxes.—Enter on this line the following:

- Self-employment tax (Form 1040, line 51);
- Alternative minimum tax (Form 1040, line 52);
- Tax from recapture of investment credit (Form 1040, line 53);
- Tax on premature distributions from an IRA (Form 5329, Part II only);
- Section 72 penalty taxes;
- Excise tax on golden parachute payments; and
- Advance earned income credit payments.

Line 11.—If this line is less than $500, you do not owe a penalty and need not attach Form 2210 to your tax return.

Line 12.—1984 tax.—Figure your 1984 tax by using your taxes and credits from your 1984 tax return. Use the same type taxes and credits as shown on lines 1 through 8 of this form.

If you did not file a return for 1984 or if your 1984 tax year was for less than 12 months, do not complete this line. Instead, enter the amount from line 9 on line 13. However, see the "note" under the instructions for Who Should Use This Form.

Line 15.—If your income varies during the year, for example, you receive unexpected or seasonal income not subject to withholding in April or later, complete the annualized income installment worksheet below. Publication 505 contains a comprehensive example. If you complete line 15 for any payment period, you must complete it for all payment periods.

Line 17.—*Complete line 17 as follows:*

- You are considered to have paid any withheld Federal income tax or excess social security/RRTA tax evenly over the period you worked during the year unless you can show otherwise. If you worked all year, divide the total amount withheld by 4, and enter the result in each column.
- Enter your estimated tax paid for each payment period, plus any 1984 overpayment of tax which you elected to apply to your 1985 estimated tax. Use June 15 as the date of payment if you made your estimated tax payment by June 17, and September 15 if you made your payment by September 16. If you file your return and pay the tax due by January 31, 1986, use January 15 as the date of payment for figuring the penalty for earlier underpayments. Include the amount of tax you pay with your return on line 17, column (d).
- If for any payment period, you have an underpayment on line 18, reduce line 17 for the next payment period by that amount. Do not enter less than zero.
- If for any payment period, you have an overpayment on line 18, increase line 17 for the next payment period by that amount.

Line 18.—If you do not show an underpayment in line 18 for columns a, b, c or d, you need not attach this form to your tax return unless line 15 was completed.

If your underpayment was due to a casualty or other unusual circumstance, or because in 1984 or 1985 you retired after age 62 or became disabled and your underpayment was due to reasonable cause, explain in the margin of Part II and do not complete the rest of form.

Line 19.—Figure the number of days from the due date of an installment to the date the estimated tax was paid regardless of which installment the tax was for. For example, if line 18, column (a) shows an underpayment, any later payment of estimated tax is considered the date line 18, column (a) was paid to the extent of the underpayment.

Annualized Income Installment Worksheet

(Complete one column through Step 11 before completing the next column)		1/1/85 to 3/31/85	1/1/85 to 5/31/85	1/1/85 to 8/31/85	1/1/85 to 12/31/85
Step 1	Figure your actual taxable income, alternative minimum taxable income and adjusted self-employment income for each period . .				
Step 2	Annualization amounts.	4	2.4	1.5	1
Step 3	Multiply step 2 by each of the separate incomes in step 1 . . .				
Step 4	Figure your tax, alternative minimum tax, and self-employment tax on incomes in step 3. Follow the instructions for Form 2210, lines 1 through 8				
Step 5	Applicable percentage	20%	40%	60%	80%
Step 6	Multiply step 4 by step 5				
Step 7	Enter the combined amounts of step 11 from all preceding periods	▨			
Step 8	Subtract step 7 from step 6. If less than zero, enter zero				
Step 9	For each payment period, enter the amount from Form 2210, line 14 for the current period plus the amount from Step 10 of this worksheet for the preceding payment period				
Step 10	If step 9 is more than step 8, subtract step 8 from step 9; otherwise, enter zero				
Step 11	Enter the smaller of step 8 or step 9 here, on Form 2210, line 15, and on step 7 above.				

Form **2220**

Department of the Treasury
Internal Revenue Service

Underpayment of Estimated Tax by Corporations

▶ Attach to your tax return.
▶ For Paperwork Reduction Act Notice, see back of form.

OMB No. 1545-0142

1985

Name

Employer identification number

Part I How to Figure Your Underpayment

Note: *If you qualify for exception 1 (line 10) for all four payment periods, you do not have to file Form 2220. If you meet any of the exceptions that avoid the underpayment penalty for ALL quarters, complete only lines 9 through 13.*

1 1985 tax (Line 31, Form 1120; Line 27, Form 1120-A; or comparable line for other income tax returns)

2 a Personal holding company tax included in line 1 (Schedule PH (Form 1120), line 15).

b Credit for Federal tax on gasoline and special fuels (See instructions)

c Minimum tax on tax preference items (Form 4626, line 12)

3 Total—Add lines 2a through 2c.

4 Subtract line 3 from line 1

5 90% of line 4

	Due Dates of Installments			
	(a)	(b)	(c)	(d)
Enter in columns (a) through (d) the installment due dates (the 15th day of the 4th, 6th, 9th, and 12th months of your tax year). ▶				
6 Enter 25% of line 5 in columns (a) through (d).				
7 a Amount paid or credited for each period (see instructions)				
b Overpayment of previous installment (see instructions)	▨			
c Add lines 7a and 7b.				
8 Underpayment (line 6 less line 7c) or overpayment (line 7c less line 6)				

Part II Exceptions to the Penalty (Read instructions for lines 10 through 13 before entering an amount)

	(a)	(b)	(c)	(d)
9 Total amount paid or credited from the beginning of the tax year through the installment dates that correspond to the 15th day of the 4th, 5th, 9th, and 12th months of your tax year				
10 Exception 1, prior year's tax. (**Note:** Not applicable for "large corporations" (see instructions).)	25% of tax	50% of tax	75% of tax	100% of tax
11 Exception 2, tax on prior year's income based on the facts shown on the prior year's return but using current year's rates. (**Note:** Not applicable for "large corporations" (see instructions).)	25% of tax	50% of tax	75% of tax	100% of tax
12 Exception 3, tax on annualized income (attach computation)	22.50% of tax	45% of tax	67.50% of tax	90% of tax
13 Additional exception for recurring seasonal income (see instructions)				

Part III How to Figure the Penalty

	(a)	(b)	(c)	(d)
Enter the same installment dates used above ▶				
14 Amount of underpayment from line 8				
15 Enter the date of payment or the 15th day of the 3d month after the close of the tax year, whichever is earlier				
16 Number of days from due date of installment to the date shown on line 15				
17 Number of days on line 16 after 4/15/85, and before 7/1/85				
18 Number of days on line 16 after 6/30/85, and before 1/1/86				
19 Number of days on line 16 after 12/31/85, and before 7/1/86				
20 Number of days on line 16 after 6/30/86, and before 1/1/87				
21 Number of days on line 16 after 12/31/86, and before 2/16/87				
22 $\frac{\text{Number of days on line 17}}{\text{Number of days in the tax year}}$ x 13% x amount on line 14				
23 $\frac{\text{Number of days on line 18}}{\text{Number of days in the tax year}}$ x 11% x amount on line 14				
24 $\frac{\text{Number of days on line 19}}{\text{Number of days in the tax year}}$ x 10% x amount on line 14				
25 $\frac{\text{Number of days on line 20}}{\text{Number of days in the tax year}}$ x *% x amount on line 14				
26 $\frac{\text{Number of days on line 21}}{\text{Number of days in the tax year}}$ x **% x amount on line 14				
27 Underpayment penalty (total of lines 22 through 26)				

28 Add columns (a) through (d), line 27. Enter here and on line 33, Form 1120; Line 29, Form 1120-A; or comparable line for other income tax returns

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*A corporation whose tax year ends after March 31, 1986, see the instructions for line 25.

**A corporation whose tax year ends after September 30, 1986, see the instructions for line 26.

Instructions

(Section references are to the Internal Revenue Code, unless otherwise noted.)

Paperwork Reduction Act Notice

We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Purpose of Form

Form 2220 is used by corporations to determine whether they paid enough estimated tax, whether they are subject to the penalty for underpayment of estimated tax, and, if so, the amount of penalty. Estimated tax is a corporation's expected income tax liability minus its credits. A corporation must make estimated tax payments if it can reasonably expect its estimated tax to be $40 or more.

Note: *Exceptions 1 and 2 in lines 10 and 11 do not apply to "large" corporations. A "large" corporation is one which had, or its predecessor had, taxable income of at least $1,000,000 for any of the 3 taxable years immediately preceding the taxable year involved. Such corporations can use only the Exceptions in lines 12 and 13.*

How to Use This Form

Complete Part I of Form 2220 to determine if you have an underpayment for any of the four payment periods. If you have an underpayment on line 8 (columns (a), (b), (c), or (d)), go to Part II, Exceptions to the Penalty. If you cannot meet any of the exceptions for a payment period, go to Part III, How to Figure the Penalty. If you are using Form 2220 either to figure the estimated tax penalty or to show that you qualify for any exception, attach Form 2220 to your income tax return. Check the box on line 33, page 1, of Form 1120; line 29 of Form 1120-A; or the comparable line of any other income tax return the corporation may file (e.g., Form 990-C, 1120L, etc.).

Part I. How to Figure Your Underpayment

Complete lines 1 through 8 in Part I. Follow the instructions below.

Line 2b.—Include the amount of credit for windfall profit tax overpayments resulting from payments for crude oil that are subject to withholding and received during the tax year. Also, see the instructions for **Form 6249**, Computation of Overpaid Windfall Profit Tax, for computation of the credit.

Line 7a.—Generally, a prior year's overpayment will be applied against the earliest installment unless the taxpayer instructs IRS differently. See Rev. Rul. 84-58, 1984-1 C.B. 254.

Line 7b.—Enter any overpayment shown on line 8 that is more than the total of all earlier underpayments as a credit against the next installment.

Line 8.—If line 8 shows an underpayment, complete Part II to see if any of the exceptions apply.

Part II. Exceptions to the Penalty

You will not have to pay a penalty if all of your tax payments (Part II, line 9) were made on time and are equal to or more than any one of the amounts figured as explained by the exceptions (lines 10, 11, 12, and 13) for the same payment period (columns (a), (b), (c), or (d)).

Note: *The term "tax" for purposes of the following exceptions does not apply to minimum tax.*

The exceptions to the penalty are:

Line 10.—Exception 1, prior year's tax. (NOT to be used by large corporations)—Generally, this exception applies if the corporation paid an amount equal to or more than the tax ("tax" equals line 4 of the 1984 Form 2220) shown on its 1984 return. However, the corporation must have filed an income tax return showing a tax liability for the preceding tax year and that year must have consisted of 12 months.

Note: *If you qualify for exception 1 for all four payment periods, you do not have to file Form 2220.*

Line 11.—Exception 2, tax on prior year's income using current year's rates. (NOT to be used by large corporations)— Generally, this exception applies if the amount the corporation paid is equal to or more than the tax figured by using the current year's rates but based on the facts shown on the prior year's return and the law that applies to the prior year. Your prior year's return does not have to show a tax liability.

Line 12.—Exception 3, tax on annualized income.—This exception applies if the estimated tax paid was equal to or more than 90% of the amount the corporation would owe if its estimated tax were a tax figured on annualized taxable income for the months preceding an installment date.

A corporation may annualize its income as follows:

(a) For the first three months if the installment was required to be paid in the 4th month.

(b) For the first 3 months or for the first 5 months if the installment was required to be paid in the 6th month.

(c) For the first 6 months or for the first 8 months if the installment was required to be paid in the 9th month.

(d) For the first 9 months or for the first 11 months if the installment was required to be paid in the 12th month.

To annualize, multiply taxable income for the period by 12 and divide the result by the number of months in the period (3, 5, 6, 8, 9, or 11, as the case may be).

Please attach your computation.

Line 13.—Additional exception for recurring seasonal income.—This exception applies to a corporation with recurring seasonal income. Under this exception, income may be annualized by assuming that income earned in the current year is earned in the same seasonal pattern as in the 3 preceding tax years.

For information about computing seasonal income, definitions, and special rules, see section 6655(e).

Please attach your computation.

Part III. How to Figure the Penalty

If no exception applies, complete lines 14 through 28 to determine the amount of the penalty. The penalty is figured for the period of underpayment determined under section 6655 at a rate determined under section 6621. For underpayments paid after June 30, 1986, see the instructions for lines 25 and 26.

A payment of estimated tax on or before any installment date is considered a payment of any previous underpayment only to the extent the payment is more than the amount of the current installment as figured on line 6. If the corporation made more than one payment for an installment, attach a separate computation for each installment.

Line 25.—For underpayments paid after June 30, 1986, and before January 1, 1987, a corporation must use an interest rate that the IRS will announce by April 15, 1986.

Line 26.—For underpayments paid after December 31, 1986, a corporation must use an interest rate that the IRS will announce by October 15, 1986.

Line 27.—In columns (a) through (d) of line 27, for those installment payments (line 7c) that equal 80% or more of line 4 divided by 4, multiply the penalty shown in each applicable column by 75%. Enter this result under the applicable column in the space below line 27. Combine these revised amounts with the remaining amounts in line 27 and enter result in line 28.

Form **2441**

Department of the Treasury
Internal Revenue Service (X)

Credit for Child and Dependent Care Expenses

▶ **Attach to Form 1040.**
▶ **See Instructions below.**

OMB No. 1545-0068
1985
23

Name(s) as shown on Form 1040

Your social security number

1 Write the number of qualifying persons who were cared for in 1985. (See the instructions below for the definition of qualifying persons.) . . . ▶ **1**

2 If payments listed on line 3 were made to an individual, complete the following: Yes No

a If you paid $50 or more in a calendar quarter to an individual, were the services performed in your home? . . . **2a**

b If "Yes," have you filed appropriate wage tax returns on wages for services in your home (see the instructions for line 2)? . . . **2b**

c If the answer to **b** is "Yes," write your employer identification number. . . . ▶ **2c** Employer ID number

3 Write the amount of qualified expenses you incurred and actually paid in 1985 for the care of the qualifying person, but **do not** write more than $2,400 ($4,800 if you paid for the care of two or more qualifying persons) . . . **3**

4 You **must** write your earned income on line 4c. See the instructions for line 4 for the definition of earned income.

- If you were **unmarried** at the end of 1985, write your earned income on line 4c, **OR**
- If you are **married,** filing a joint return for 1985, you must complete lines 4a and 4b.

a Write your earned income . . . **4a**

b Write your spouse's earned income . . . **4b**

c Compare amounts on lines 4a and 4b, and write the **smaller** of the two amounts on line 4c . . . **4c**

5 Compare amounts on lines 3 and 4c, and write the **smaller** of the two amounts on line 5 . . . **5**

6 Write the percentage from the table below that applies to the adjusted gross income on Form 1040, line 33 . . . **6**

If line 33 is: Over— But not over—	Percentage is:	If line 33 is: Over— But not over—	Percentage is:
$0–10,000	30% (.30)	$20,000–22,000	24% (.24)
10,000–12,000	29% (.29)	22,000–24,000	23% (.23)
12,000–14,000	28% (.28)	24,000–26,000	22% (.22)
14,000–16,000	27% (.27)	26,000–28,000	21% (.21)
16,000–18,000	26% (.26)	28,000	20% (.20)
18,000–20,000	25% (.25)		

7 Multiply the amount on line 5 by the percentage shown on line 6, and write the result. . . . **7**

8 Multiply any child and dependent care expenses for 1984 that you paid in 1985 by the percentage that applies to the adjusted gross income on Form 1040, line 33, for 1984. Write the result. (See line 8 instructions for the required statement.) . . . **8**

9 Add amounts on lines 7 and 8. Write the total here and on Form 1040, line 41. This is the maximum amount of your credit for child and dependent care expenses . . . **9**

General Instructions

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

What Is the Child and Dependent Care Expenses Credit?

You may be able to take a tax credit for amounts you paid someone to care for your child or other qualifying person so you could work or look for work in 1985. The credit will lower the amount of your tax. The credit is based on a percentage of the amount you paid during the year. The most you may take as a credit is $720 if you paid for the care of one qualifying person, or $1,440 if you paid for the care of two or more qualifying persons.

Additional Information.—For more information about the credit, please get **Publication 503**, Child and Dependent Care Credit, and Employment Taxes for Household Employers.

Who Is a Qualifying Person?

A qualifying person is any one of the following persons:

- Any person under age 15 whom you claim as a dependent (but see the special rule later for **Children of divorced or separated parents**).
- Your disabled spouse who is mentally or physically unable to care for himself or herself.
- Any disabled person who is mentally or physically unable to care for himself or herself and whom you claim as a dependent, or could claim as a dependent except that he or she had income of $1,040 or more.

Note: *You must have shared the same home with any person you claim as a qualifying person.*

Children of divorced or separated parents.—If you were divorced, legally separated, or lived apart from your spouse during the last 6 months of 1985, you may be able to claim the credit even if your child is not your dependent. If your child is not your dependent, he or she is a qualifying person if **all five** of the following apply:

1. You had custody of the child for the longer period during the year; and

2. The child received over half of his or her support from one or both of the parents; and

3. The child was in the custody of one or both of the parents over half of the year; and

4. The child was under age 15, or was physically or mentally unable to care for himself or herself; and

(Continued on back)

5. The child is not your dependent because—

- **a.** As the custodial parent, you have signed **Form 8332**, Release of Claim to Exemption for Child of Divorced or Separated Parents, or a similar statement, agreeing not to claim the child's exemption for 1985; or
- **b.** You were divorced or separated before 1985 and your divorce decree or written agreement states that the other parent can claim the child's exemption, and the other parent provides at least $600 in child support during the year. ***(Note:*** *This rule does not apply if your decree or agreement was changed after 1984 to specify that the other parent cannot claim the child's exemption.)*

Who May Take the Credit?

To claim the credit **all five** of the following must apply:

1. You paid for the care so you (and your spouse if you were married) could work or look for work (but see the rules at the line 4 instructions for **Spouse who is a full-time student or is disabled).**

2. You and the qualifying person(s) lived in the same home.

3. You (and your spouse if you were married) paid over half the cost of keeping up your home. The cost includes: rent; mortgage interest; property taxes; utilities; home repairs; and food eaten at home.

4. The person you paid to provide the care was not your spouse or a person you could claim as a dependent.

Note: *If the person you paid to provide the care was your child, he or she must have been 19 or over by the end of 1985.*

5. If you were married at the end of 1985, generally, you must file a joint tax return. However, there are two exceptions to this rule. You will be treated as unmarried and still be eligible to take the credit if:

- **a.** You were legally separated; or
- **b.** You were living apart from your spouse during the last 6 months of the year, and:
  - The qualifying person lived with you in your home over 6 months, and
  - You provided over half the cost of keeping up your home.

What Are Qualified Expenses?

Qualified expenses include amounts paid for household services and care of the qualifying person while you work or look for work.

Household services.—These services must be needed to care for the qualifying person as well as to run the home. They include, for example, the services of a cook, maid, babysitter, housekeeper, governess, or cleaning person if the services were partly for the care of the qualifying person.

Care of the qualifying person.—Care includes the cost of services for the qualifying person's well-being and protection.

Generally, care does not include food or schooling expenses. However, if these items are included as part of the total care, and they are incident to, and cannot be separated from, the total cost, you may count the total payment. However, you may not count the cost of schooling for a child in the first grade or above.

Care outside the home.—You may count care provided outside your home if the care was for:

- **a.** Your dependent under age 15; or
- **b.** Any other qualifying person who regularly spends at least 8 hours each day in your home.

Care that is provided by a dependent care center may be counted if the center complies with all applicable state and local laws and regulations. A dependent care center is a place that provides care for at least seven persons (other than persons who live there), and receives a fee, payment, or grant for providing the services for any of those persons, regardless of whether the center is run for profit.

Medical expenses.—Some dependent care expenses may qualify as medical expenses. If you itemize deductions, you may want to take all or part of these medical expenses on Schedule A (Form 1040). If you cannot use all the medical expenses on Form 2441 because of the dollar limit or earned income limit (explained later), you may take the rest of these expenses on Schedule A. But if you deduct the medical expenses first on Schedule A, you may not use any part of these expenses on Form 2441.

Specific Instructions

The following are specific instructions for most of the lines on the form. Lines which have no instructions here are self-explanatory.

Line 2.—In general, if you paid cash wages of $50 or more in a calendar quarter for household services provided by a person such as a housekeeper, maid, babysitter, or cook, you must file an employment tax return. If you are not sure whether you should file an employment tax return, get **Form 942,** Employer's Quarterly Tax Return for Household Employees.

Note: *You should file a* ***Form 940,*** *Employer's Annual Federal Unemployment (FUTA) Tax Return, for 1985 by January 31, 1986, if you paid cash wages of $1,000 or more for household services in any calendar quarter in 1984 or 1985.*

Line 3. Dollar limit.—On line 3 write the amount of qualified child and dependent care expenses you incurred and actually paid in 1985. However, the most you may figure the credit on is $2,400 a year for one qualifying person, or $4,800 a year for two or more qualifying persons. Do not include amounts paid or incurred by your employer if, and to the extent, such amounts are excluded from your gross income.

Note: *Do not include on line 3 qualified expenses that you incurred in 1985 but did not pay until 1986. Instead, you may be able to increase the amount of your 1986 credit when you pay the 1985 expenses in 1986.*

Line 4. Earned income limit.—Figure your earned income limitation on line 4. The amount of your qualified expenses **may not** be more than your earned income or, if married filing a joint return, the **smaller** of your earned income or your spouse's earned income.

In general, earned income is wages, salaries, tips, and other employee compensation. It also includes net earnings from self-employment. For more information on what is earned income for purposes of the credit, see Publication 503.

Unmarried taxpayers.—If you were unmarried at the end of 1985 or are treated as being unmarried at the end of the year, write your earned income on line 4c.

Married taxpayers.—If you are married, filing a joint return, figure each spouse's earned income separately and disregard community property laws. Write your earned income on line 4a and your spouse's earned income on line 4b. Then, write the smaller of your earned income or your spouse's earned income on line 4c.

Spouse who is a full-time student or is disabled.—If your spouse was a full-time student or was mentally or physically unable to care for himself or herself, figure your spouse's earned income on a monthly basis to determine your spouse's earned income for the year. For each month that your spouse was disabled or a full-time student, your spouse is considered to have earned income of not less than $200 a month ($400 a month if more than one qualifying person was cared for in 1985).

If, in the same month, both you and your spouse were full-time students and did not work, you may not use any amount paid that month to figure the credit. The same applies to a couple who did not work because neither was capable of self-care.

A full-time student is one who was enrolled in a school for the number of hours or classes that the school considers full time. The student must have been enrolled at least 5 months during 1985.

Self-employment income.—You must reduce your earned income by any loss from self-employment. If your net earnings from self-employment are less than $1,600, and you use the optional method to figure your self-employment tax, you may be able to increase your net earnings to $1,600 for this credit. See **Publication 533,** Self-Employment Tax, for details. If you only have a loss from self-employment, or your loss is more than your other earned income and you do not use the optional method, you may not take the credit.

Line 8.—If you had qualified expenses for 1984 that you did not pay until 1985, you may be able to increase the amount of credit you may take in 1985. To do this, multiply the 1984 expenses you paid in 1985 by the percentage from the table on line 6 that applies to the adjusted gross income shown on your 1984 Form 1040, line 33. Your 1984 expenses must be within the 1984 limits. Attach a computation showing how you figured the increase. (Use the example in Publication 503 as a guide.)

Form **2688**

Department of the Treasury
Internal Revenue Service

Application for Extension of Time To File
U.S. Individual Income Tax Return

(See back for filing instructions. Be sure to complete all items.)

OMB No. 1545-0066

1985

59

Please type or print.
File the original and one copy by the due date for filing your return.

Your first name and initial (if joint return, also give spouse's name and initial)	Last name	**Your social security number**
Present home address (Number and street, including apartment number, or rural route)		**Spouse's social security number**
City, town or post office, state, and ZIP code		

If you expect to file a gift tax return (Form 709 or Form 709-A) for 1985, generally due by April 15, 1986, check this box. ▶ ☐

1 I request an extension of time until ______________, 19 ___, to file Form 1040A or Form 1040 for the calendar year 1985, or other tax year ending ______________, 19 ___.

2 Were you previously granted an extension of time to file for this tax year? ☐ Yes ☐ No

3 Previous extension granted to (date) ______________

4 State in detail why you need an extension. ______________

Signature and Verification

Under penalties of perjury, I declare that I have examined this form, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete; and, if prepared by someone other than the taxpayer, that I am authorized to prepare this form.

Signature of taxpayer ▶ ______________ Date ▶ ______________

Signature of spouse ▶ ______________ Date ▶ ______________

Signature of preparer other than taxpayer ▶ ______________ Date ▶ ______________

IRS will show below whether or not your application is approved and will return the copy.

Notice to Applicant—To Be Completed by IRS

☐ We **HAVE** approved your application. (Please attach this form to your return.)

☐ We **HAVE NOT** approved your application. (Please attach this form to your return.)
However, because of your reasons stated above, we have granted a 10-day grace period from the date shown below or due date of your return, whichever is later. This grace period is considered to be a valid extension of time for elections otherwise required to be made on returns filed on time.

☐ We **HAVE NOT** approved your application. After considering your reasons stated above, we cannot grant your request for an extension of time to file. (We are not granting the 10-day grace period.)

☐ We cannot consider your application because it was filed after the due date of your return.

☐ Other ______________

____
Director

____
Date

By ______________

For Paperwork Reduction Act Notice, see back of form.

Form **2688** (1985)

If the copy of this form is to be returned to you at an address other than that shown on page 1, or to an agent acting for you, please enter the name of the agent and/or the address where the copy should be sent.

Please Type or Print	Name	
	Number and street	
	City, town or post office, state, and ZIP code	

Note:

A. You may not choose to have IRS figure your income tax if you file your return after the regular due date.

B. This is not an extension of time to pay tax. You will be charged a penalty for late payment of tax unless you show reasonable cause for not paying the tax when due.

General Instructions

Paperwork Reduction Act Notice.— We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Purpose of Form.—Use Form 2688 to ask for an additional extension of time to file **Form 1040A** or **Form 1040** if you have already filed **Form 4868,** Application for Automatic Extension of Time To File U.S. Individual Income Tax Return, to get an automatic 4-month extension of time, but still need more time. Except in cases of undue hardship, do not file Form 2688 unless you have first filed Form 4868.

You must file Form 2688 on time and show reasonable cause why you cannot file your return within the 4-month extension period allowed by properly filing Form 4868. Generally, we will consider your application based on your efforts to meet the filing requirements, rather than on the convenience of your tax return preparer. However, if your tax return preparer is not able to complete the return by the due date for reasons beyond his or her control, or if in spite of reasonable efforts you cannot get professional help in time to file, we will generally grant the additional extension.

Note: *Any extension of time granted for filing your 1985* ***calendar*** *year income tax return also extends the time for filing a gift tax return for 1985.*

Filing Form 2350.—If you are a U.S. citizen or resident alien living abroad who expects to qualify for special tax treatment, file Form 2350, Application for Extension of Time To File U.S. Income Tax Return, to ask for an extension of time to file your Form 1040. See **Publication 54,** Tax Guide for U.S. Citizens and Resident Aliens Abroad, for more information.

Period of Extension.—We cannot grant an extension of more than 6 months if you live in the United States. The 6-month extension period granted includes the 4 months granted if Form 4868 was previously filed.

When to File.—File Form 2688 by the due date of your return (April 15, 1986, for a 1985 calendar year return), or extended due date if Form 4868 was previously filed. U.S. citizens and resident aliens living or traveling outside the United States and Puerto Rico on the due date of their return are automatically allowed a 2-month extension (to June 15 for a calendar year return).

File early enough so that we will have time to act on your application before your return's regular or extended due date.

Where to File.—File the original and one copy of Form 2688 with the Internal Revenue Service Center where you are required to file your return.

Penalties.—You may be charged one or both of the following penalties.

Late payment penalty.—Form 2688 does not extend the time to pay income or gift tax. A penalty of 1/2 of 1% of any tax (other than estimated tax) not paid by the regular due date is charged for each month, or part of a month, that the tax remains unpaid, unless you can show reasonable cause for not paying on time. The penalty is limited to 25%.

Late filing penalty.—A penalty is charged if your return is filed after the due date (including extensions) unless you can show reasonable cause for filing late. The penalty is 5% of the tax not paid by the **regular** due date for each month, or part of a month, that your return is late. The penalty is limited to 25%. If your return is more than 60 days late, the penalty will not be less than $100 or the balance of tax due on your return, whichever is smaller.

Interest.—Interest is charged on the tax not paid by the regular due date of your return until it is paid. It will be charged even if you have been granted an extension, or if you can show reasonable cause for not paying the tax on time.

Line-by-Line Instructions

At the top of this form, fill in the spaces for your name, address, social security number, and spouse's social security number if you are filing a joint return. If you expect to file a gift tax return **(Form 709** or **Form 709-A)** for 1985, check the box on the front of this form.

Line 4.—Clearly describe the reasons that will cause your delay in filing your return. We cannot accept incomplete reasons, such as "illness" or "practitioner too busy," without adequate explanations. If it is clear that an application was made for no important reason, but only to gain time, both the application and the 10-day grace period will be denied.

If, because of undue hardship, you use this form to ask for an extension of time beyond the regular due date of your return, clearly explain your reasons and attach all supporting information to the form.

Caution: If an extension is granted and the IRS later determines that the statements made on this form are false and misleading, the extension is null and void. You will be subject to the late filing penalty, explained above.

Signature by Taxpayers.—Generally, both spouses must sign this form for the extension to be valid if a joint return is to be filed. But if one spouse cannot sign because of illness, absence, or other good cause, the other spouse may sign for both, provided a proper explanation is attached explaining why that spouse cannot sign this form.

Signature by Other than Taxpayer.—Persons who may sign for the taxpayers include attorneys or certified public accountants qualified to practice before the IRS, enrolled agents, or any person holding a power of attorney. If the taxpayer cannot sign because of illness, absence, or other good cause, a person in close personal or business relationship to the taxpayer may sign provided a proper explanation is attached as to why the taxpayer cannot sign this form. It is not necessary that such person hold a power of attorney.

How to Claim Credit for Payment Made With This Form.—If you file Form 1040A and are making a payment with Form 2688, include the amount of the payment in the total on Form 1040A, line 25. Also write "Form 2688" and the amount paid in the space to the left of line 25. If you file Form 1040 and are making a payment with Form 2688, include the amount of the payment on Form 1040, line 60. Also write "Form 2688" and the amount paid in the space to the left of line 60.

Form **2848**
(Rev. October 1983)
Department of the Treasury
Internal Revenue Service

Power of Attorney and Declaration of Representative

► **See separate instructions**

OMB No. 1545-0150

PART I.— Power of Attorney

Taxpayer(s) name, identifying number, and address including ZIP code (Please type or print)

For IRS Use Only		
File So.		
Level		
Receipt		
Powers		
Blind T.		
Action		
Ret.Ind.		

hereby appoints (name(s), CAF number(s), address(es), including ZIP code(s), and telephone number(s) of individual(s)) *

as attorney(s)-in-fact to represent the taxpayer(s) before any office of the Internal Revenue Service for the following tax matter(s) (specify the type(s) of tax and year(s) or period(s) (date of death if estate tax)):

Type of tax (Individual, corporate, etc.)	Federal tax form number (1040, 1120, etc.)	Year(s) or period(s) (Date of death if estate tax)

The attorney(s)-in-fact (or either of them) are authorized, subject to revocation, to receive confidential information and to perform any and all acts that the principal(s) can perform with respect to the above specified tax matters (excluding the power to receive refund checks, and the power to sign the return (see regulations section 1.6012-1(a)(5), Returns made by agents), unless specifically granted below).

Send copies of notices and other written communications addressed to the taxpayer(s) in proceedings involving the above tax matters to:

1 ☐ the appointee first named above, or
2 ☐ (names of not more than two of the above named appointees) ....

Initial here ► .... if you are granting the power to receive, but not to endorse or cash, refund checks for the above tax matters to:

3 ☐ the appointee first named above, or
4 ☐ (name of one of the above designated appointees) ► ....

This power of attorney revokes all earlier powers of attorney and tax information authorizations on file with the Internal Revenue Service for the same tax matters and years or periods covered by this power of attorney, except the following:

....

(Specify to whom granted, date, and address including ZIP code, or refer to attached copies of earlier powers and authorizations.)

Signature of or for taxpayer(s)

(If signed by a corporate officer, partner, or fiduciary on behalf of the taxpayer, I certify that I have the authority to execute this power of attorney on behalf of the taxpayer.)

(Signature) (Title, if applicable) (Date)

(Also type or print your name below if signing for a taxpayer who is not an individual.)

(Signature) (Title, if applicable) (Date)

* You may authorize an organization, firm, or partnership to receive confidential information, but your representative must be an individual who must complete Part II.

For Privacy Act and Paperwork Reduction Act Notice, see page 1 of the Instructions.

If the power of attorney is granted to a person other than an attorney, certified public accountant, enrolled agent, or enrolled actuary, the taxpayer(s) signature must be witnessed or notarized below. (The representative must complete Part II. Only representatives listed there are recognized to practice before the Internal Revenue Service.)

The person(s) signing as or for the taxpayer(s): (Check and complete one.)

☐ is/are known to and signed in the presence of the two disinterested witnesses whose signatures appear here:

(Signature of Witness) (Date)

(Signature of Witness) (Date)

☐ appeared this day before a notary public and acknowledged this power of attorney as a voluntary act and deed.

Witness: (Signature of Notary) (Date) NOTARIAL SEAL (if required by State law)

PART II.—Declaration of Representative

I declare that I am not currently under suspension or disbarment from practice before the Internal Revenue Service, that I am aware of Treasury Department Circular No. 230 as amended (31 C.F.R. Part 10), Regulations governing the practice of attorneys, certified public accountants, enrolled agents, enrolled actuaries, and others, and that I am one of the following:

1 a member in good standing of the bar of the highest court of the jurisdiction indicated below;
2 duly qualified to practice as a certified public accountant in the jurisdiction indicated below;
3 enrolled as an agent prusuant to the requirements of Treasury Department Circular No. 230;
4 a bona fide officer of the taxpayer organization;
5 a full-time employee of the taxpayer;
6 a member of the taxpayer's immediate family (spouse, parent, child, brother or sister);
7 a fiduciary for the taxpayer;
8 an enrolled actuary (the authority of an enrolled actuary to practice before the Service is limited by section 10.3(d)(1) of Treasury Department Circular No. 230);
9 Commissioner's special authorization (see instructions for Part II, item 9) ;

and that I am authorized to represent the taxpayer identified in Part I for the tax matters there specified.

Designation (insert appropriate number from above list)	Jurisdiction (State, etc.) or Enrollment Card Number	Signature	Date

Department of the Treasury
Internal Revenue Service

Instructions for Form 2848

(Revised October 1983)

Power of Attorney and Declaration of Representative

General Information

Privacy Act and Paperwork Reduction Act Notice

If you want a representative to perform certain acts on your behalf and to receive or inspect certain tax information, you must file a power of attorney. You may file a power of attorney without using Form 2848, but it must reflect the information that would be provided by using Form 2848. A representative must have a power of attorney (or tax information authorization, Form 2848-D) on file in order to receive or inspect certain tax information.

Under Code section 6109, the taxpayer's identifying number must be disclosed. The principal purpose is to secure proper identification of the taxpayer. If the identifying number is not disclosed, IRS may suspend processing the power of attorney or tax information authorization until the number is provided.

You may use Form 2848 as a power of attorney to appoint one or more individuals to represent you before the Internal Revenue Service. A firm, organization, or partnership may not be designated as a representative. You may use it for any matters affecting any tax imposed by the Internal Revenue Code, except alcohol and tobacco taxes or firearms activities. Form 2848 is for your convenience. Its use is voluntary, and you can file a power of attorney in other ways without using this form.

If you wish to prepare a power of attorney without using Form 2848, see **Publication 216**, Conference and Practice Requirements of the Statement of Procedural Rules (Subpart E of Part 601 of Title 26 of the Code of Federal Regulations).

Using Form 2848.—Your signature on Form 2848 authorizes the individual(s) you designate (your representative or "attorney-in-fact") to perform any act you can perform, excluding the power to receive refund checks, and the power to sign tax returns. This includes executing waivers and offers of waivers of restrictions on assessment or collection of deficiencies in tax, and waivers of notice of disallowance of a claim for credit or refund. It also includes executing consents extending the statutory period for assessment or collection of taxes, executing closing agreements under section 7121 of the Code, and delegating authority, or substituting another representative. A delegation or substitution must be evidenced by a statement signed by the representative named in the power of attorney.

If you want to exclude granting authority to perform any of these or other specific acts, insert language excluding such acts in the blank space provided.

If you want to include additional powers, such as authority to sign your return, insert language specifying the additional powers. See regulations section 1.6012-1(a)(5), Returns made by agents, for the provisions restricting the use of agents to sign returns, such as disease or injury that prevents you from making your return, or your continuous absence from the United States for at least 60 days prior to the return due date.

If you want your representative to have authority only to receive confidential information and to make written or oral presentations of fact or argument on your behalf, you should use **Form 2848-D**, Tax Information Authorization and Declaration of Representative, instead of Form 2848.

Filing the Power of Attorney.—If you did not file a power of attorney previously, you should file the original or a photographic or xerographic copy with each IRS office in which your representative is to represent you. You do not have to file another copy with other IRS officers or counsel who later have the matter under consideration, unless you are specifically asked to provide an additional copy.

Revoking a Power of Attorney or Tax Information Authorization.—If you want to revoke an earlier power of attorney, you may use Form 2848 as a new authorization for your representative. This will authorize him or her to represent you in specified matters and years or periods before the office of IRS where you filed the earlier power. It will also revoke all earlier tax information authorizations for the same matters and years or periods filed in that office of IRS, unless you specifically state otherwise.

If you want to revoke a power of attorney without executing a new one, send a signed statement to each office of IRS where you filed each earlier power of attorney that you are now revoking. List in this statement the name and address of each representative whose authority is being revoked.

How to Complete Form 2848

Part I. Power of Attorney

A.Taxpayer's name, identifying number, and address.—For individuals: Enter your name, social security number, and address in the space provided. If a joint return is involved, and you and your spouse are designating the same representative(s), also enter your spouse's name and social security number, and your spouse's address if different from yours.

For a corporation, partnership, or association: Enter the name, employer identification number, and business address. If the power of attorney for a partnership will be used in a tax matter in which the name and social security number of each partner has not previously been sent to IRS, list the name and social security number of each partner in the available space at the end of the form or on an attached sheet.

For a trust: Enter the name, title, and address of the fiduciary, and the name and employer identification number of the trust.

For an estate: Enter the name, title, and address of the decedent's personal representative, and the name and identifying number of the estate. The identifying number for an estate includes both the employer identification number if the estate has one and the decedent's social security number.

B. Appointee.—Enter the name(s),CAF number(s) (if one has already been assigned), address(es), and telephone number(s) of the individual(s) you appoint. This may not be the name of a law firm, etc. (See item D below.)

The CAF number is the unique number (not the social security number) that IRS will assign to a representative after he or she has filed a Form 2848 or Form 2848-D with an IRS office that is using the CAF system. After IRS tells the representative what his or her CAF number is, the representative is requested, but not required, to use the CAF number on all future Forms 2848 or 2848-D filed. In the case of an employee plan administrator who is required to obtain an employer identification number in order to be recognized as the plan administrator, the CAF number is the employer identification number assigned to the administrator.

C. Internal Revenue tax matters and years or periods.—Consider the application of each tax imposed by the Internal Revenue Code for each tax period as a separate tax matter. In the columns provided, clearly identify the type of tax(es), the tax form number(s), and the year(s) or period(s) to which the power relates. You may list any number of specified years or periods and types of taxes in the same power of attorney. For example, you may list income tax Form 1040 for calendar year 1982 and excise tax Form 720 for the 1st, 2nd, 3rd and 4th quarters of 1982, or you may list all years or all periods for each form and each tax period. Please submit an additional copy for each type of tax and each tax period in excess of one. For example, if you list Form 1040 for 1982 and Form 720 for the 1st, 2nd, 3rd, and 4th quarters of 1982, submit five copies of Form 2848. If you list all years, please submit copies with future returns. If the matter relates to estate tax, enter the date of the taxpayer's death instead of the year or period.

If the power of attorney is used for ruling requests, submit a copy with each request. If you want the original of the ruling mailed to your representative, state this in the space provided for additional acts.

D. Where you want copies to be sent.—You may have copies of notices and other written communications sent to your representative, but to no more than two representatives if they are located at different addresses. Please check box 1 if you want notices or communications sent to the first appointee named at the top of the form. Check box 2 if you want them sent to someone other than the first named appointee or if you want them sent to two appointees. In this case, list the names of the appointees.

E. Refund checks (boxes 3 and 4).—Check box 3 or 4 and put your initials in the space provided if you want your refund checks mailed to your representative. Your representative may then receive but not endorse or cash refund checks.

F. Signature of taxpayers.—For individuals: If a joint return is involved and both husband and wife will be represented by the same individual(s), then both must sign the power of attorney unless one spouse authorizes (in writing) the other to sign for both. In this case, attach a copy of the authorization. However, if they are to be represented by different individuals, each may execute his or her own power of attorney.

For a partnership: All partners must sign unless one partner is authorized to act in the name of the partnership. A partner is authorized to act in the name of the partnership if under State law the partner has authority to bind the partnership.

For a corporation or association: An officer having authority to bind the entity must sign.

If you are signing the power of attorney for a taxpayer who is not an individual, please type or print your name below the signature line at the bottom of the form.

Other: If the taxpayer has died, is insolvent, or is a dissolved corporation or partnership, or if a trustee, guardian, or other fiduciary is acting for the taxpayer, see section 601.504(b)(2) of Subpart E of the Conference and Practice Requirements for further instructions about executing a power of attorney.

G. Notarizing or witnessing the power of attorney.—A notary public or two disinterested individuals must witness a power of attorney unless it is granted to an attorney, certified public accountant, enrolled agent, or enrolled actuary.

Part II. Declaration of Representative

Your representative must complete Part II to make a declaration containing the following:

(1) A statement that the representative is authorized to represent the taxpayer as a certified public accountant, attorney, enrolled agent, enrolled actuary, member of your immediate family, etc.

An actuary enrolled by the Joint Board for the Enrollment of Actuaries may represent a taxpayer before IRS. However, the actuary's representation is limited to certain areas of the Code. See section 10.3(d)(1) of Treasury Department Circular No. 230 (Rev. June 1979) for a list of the Code sections involved and the areas covered by them.

(2) The jurisdiction recognizing the representative. For an attorney or certified public accountant: Enter in the "jurisdiction" column the State, District of Columbia, possession, or commonwealth which has granted the declared professional recognition. For an enrolled agent or actuary: Enter in the "jurisdiction" column the enrollment card number.

(3) The signature of the representative and the date signed.

If the representative is a former employee of the Federal government, he or she must be aware of the post-employment restrictions contained in the Ethics in Government Act, 18 USC 207, and in section 10.26 of Treasury Department Circular No. 230. Criminal penalties are provided for violation of the post-employment restrictions.

Unenrolled return preparers (see Treasury Department Circular No. 230, section 10.7(a)(7)) may NOT use Form 2848. They may use Form 2848-D for the limited practice without enrollment provided in T.D. Circular No. 230, section 10.7(a)(7).

Part II, Item 9.—Use this item to explain a special authorization by the Commissioner, as described in T.D. Circular No. 230, section 10.7(b).

Form **3468**

Department of the Treasury
Internal Revenue Service (X)

Computation of Investment Credit

▶ Attach to your tax return.
▶ Schedule B (Business Energy Investment Credit) on back.

OMB No. 1545-0155

1985
24

Name(s) as shown on return

Identifying number

Part I Elections (Check the box(es) below that apply to you (See Instruction D).)

A I elect to increase my qualified investment to 100% for certain commuter highway vehicles placed in service before January 1, 1986 (section 46(c)(6)) ☐

B I elect to increase my qualified investment by all qualified progress expenditures made this and all later tax years . . . . ☐
Enter total qualified progress expenditures included in column (4), Part II ▶ . . . .

C I claim full credit on certain ships under section 46(g)(3) (See **Instruction B** for details.) . . . . ☐

Part II Qualified Investment (See instructions for rules on automobiles and other property with any personal use)

1 Recovery Property		Line	(1) Class of Property	(2) Cost or Other Basis	(3) Applicable Percentage	(4) Qualified Investment (Column 2 x column 3)
Regular Percentage	New Property	(a)	3-year		60	
		(b)	Other		100	
	Used Property	(c)	3-year		60	
		(d)	Other		100	
Section 48(q) Election to Reduce Credit (instead of adjusting basis)	New Property	(e)	3-year		40	
		(f)	Other		80	
	Used Property	(g)	3-year		40	
		(h)	Other		80	

2 Nonrecovery property—Enter total qualified investment (See instructions for line 2)	2	
3 New commuter highway vehicle—Enter total qualified investment (See Instruction D(1))	3	
4 Used commuter highway vehicle—Enter total qualified investment (See Instruction D(1))	4	
5 **Total qualified investment in 10% property**—Add lines 1(a) through 1(h), 2, 3, and 4 (See instructions for special limits)	5	
6 Qualified rehabilitation expenditures—Enter total qualified investment for:		
a 30-year-old buildings	6a	
b 40-year-old buildings	6b	
c Certified historic structures (You must attach NPS certification—see instructions)	6c	

Part III Tentative Regular Investment Credit

7 10% of line 5	7	
8 15% of line 6a	8	
9 20% of line 6b	9	
10 25% of line 6c	10	
11 Credit from cooperatives—Enter regular investment credit from cooperatives	11	
12 Regular investment credit—Add lines 7 through 11	12	
13 Business energy investment credit—From line 11 of Schedule B (see back of this form)	13	
14 Current year investment credit—Add lines 12 and 13	14	

Note: *If you have a 1985 jobs credit (Form 5884), credit for alcohol used as fuel (Form 6478), or employee stock ownership plan (ESOP) credit (Form 8007) in addition to your 1985 investment credit, or if you have a carryback or carryforward of any general business credit, stop here and go to **Form 3800**, General Business Credit, to claim your 1985 investment credit. If you have only a 1985 investment credit (which may include business energy investment credit), you may continue with lines 15 through 20 to claim your credit.*

Part IV Tax Liability Limitations

15 a Individuals—From Form 1040, enter amount from line 46 b Corporations—From Form 1120, Schedule J, enter tax from line 3 (or Form 1120-A, Part I, line 1). c Other filers —Enter income tax before credits from return	15	
16 a Individuals—From Form 1040, enter credit from line 47, plus any orphan drug, nonconventional source fuel, and research credits included on line 49 b Corporations—From Form 1120, Schedule J, enter credits from lines 4(a) through 4(e) (Form 1120-A filers, enter zero) c Other filers—See instructions for line 16c	16	
17 Income tax liability as adjusted (subtract line 16 from line 15)	17	
18 a Enter smaller of line 17 or $25,000. (See instructions for line 18)	18a	
b If line 17 is more than $25,000—Enter 85% of the excess	18b	
19 Investment credit limitation—Add lines 18a and 18b	19	
20 Total allowed credit—Enter the smaller of line 14 or line 19. This is your **General Business Credit** for 1985. Enter here and on Form 1040, line 48; Form 1120, Schedule J, line 4(f); Form 1120-A, Part I, line 2 ; or the proper line of other returns	20	

For Paperwork Reduction Act Notice, see separate Instructions.

Schedule B.—Business Energy Investment Credit

1 Enter on lines 1(a) through 1(e) your qualified investment in business energy property that is the kind listed in the instructions for line 1, column (2)

Type of Property	Line	(1) Class of Property or Life Years	(2) Code	(3) Basis	(4) Applicable Percentage	(5) Qualified Investment (Column 3 x column 4)
Recovery	(a)	3-year			60	
	(b)	Other			100	
Nonrecovery	(c)	3 or more but less than 5			33 ⅓	
	(d)	5 or more but less than 7			66 ⅔	
	(e)	7 or more			100	

2 Total 10% energy investment property—Add lines 1(a) through 1(e), column (5) 2

3 Enter on lines 3(a) through 3(e) the basis in qualified hydroelectric generating property. Enter nameplate capacity of the property (See instructions for line 3.) ▶

Recovery	(a)	3-year	▨		60	
	(b)	Other	▨		100	
Nonrecovery	(c)	3 or more but less than 5	▨		33 ⅓	
	(d)	5 or more but less than 7	▨		66 ⅔	
	(e)	7 or more	▨		100	

4 Total 11% energy investment property—Add lines 3(a) through 3(e), column (5) 4

5 Enter on lines 5(a) through 5(e) the basis in energy property that is solar equipment, wind equipment, ocean thermal equipment, or geothermal equipment. (See instructions for line 5, column (2).)

Recovery	(a)	3-year			60	
	(b)	Other			100	
Nonrecovery	(c)	3 or more but less than 5			33 ⅓	
	(d)	5 or more but less than 7			66 ⅔	
	(e)	7 or more			100	

6 Total 15% energy investment property—Add lines 5(a) through 5(e), column (5) 6

7 Enter 10% of line 2 7

8 Enter 11% of line 4 8

9 Enter 15% of line 6 9

10 Cooperative credit—Enter business energy investment credit from cooperatives 10

11 Tentative business energy investment credit—Add lines 7 through 10. Enter here and on line 13 of page 1 11

Fiscal Year Filers

The business energy investment credits shown on this page may be claimed only for energy property placed in service by December 31, 1985 (except for certain hydroelectric generating property, which may be placed in service by December 31, 1988).

At the time we printed this form it was uncertain whether Congress would extend this deadline. We will use news media and other means available to provide you with information and instructions on any change.

Instructions for Schedule B (Form 3468)

Energy property must meet the same requirements as regular investment credit property, except that the provisions of sections 48(a)(1) and 48(a)(3) do not apply. See the separate Instructions for Form 3468 for definitions and rules regarding regular investment credit property.

Energy property must be acquired new. See sections 46(b)(2) and 48(l)(1) through (17) for details.

See section 48(l)(17) for special rules on public utility property, and section 48(l)(11) (as amended by the Crude Oil Windfall Profit Tax Act of 1980) for special rules on property financed by Industrial Development Bonds.

Specific Instructions

One Credit Only.—If property qualifies as more than one kind of energy property, you may take only one credit for the property.

Lines 1, 3, and 5—Type of Property.—For definition of recovery and nonrecovery property, see the separate Instructions for Form 3468.

Line 1—Column (2).—Use the code letters from the following list to indicate the kind of property for which you are claiming a credit. If you enter more than one kind of property on a line, enter the code letter for each kind of property in column (2) and the code letter and dollar amount of each kind of property in the right hand margin.

The code letters are:

a. Biomass property

b. Qualified intercity buses (see section 48(l)(16)(C) for the limitation on qualified investment for intercity buses based on the increase in operating seating capacity)

Line 3.—Figure your qualified investment in hydroelectric generating property. If the installed capacity is more than 25 megawatts, the 11% energy credit is allowed for only part of the qualified investment. See section 48(l)(13)(C).

In the space provided in line 3, enter the megawatts capacity of the generator as shown on the nameplate of the generator.

Line 5—Column (2).—Use the code letters from the following list to indicate the kind of property for which you are claiming a credit. Be sure to put the code or codes on the line for the correct recovery period or life years as explained in the instructions for line 1, column (2).

c. Solar equipment (but not passive solar equipment)

d. Wind equipment

e. Ocean thermal equipment

f. Geothermal equipment

See sections 48(l)(4) and 48(l)(3)(A)(viii) and (ix) for definitions and special rules that apply to these kinds of property.

1985

Department of the Treasury
Internal Revenue Service

Instructions for Form 3468

Computation of Investment Credit

(Section references are to the Internal Revenue Code, unless otherwise noted.)

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Items You Should Note

General Business Credit.—The general business credit consists of the investment credit (Form 3468), jobs credit (Form 5884), credit for alcohol used as fuel (Form 6478), and employee stock ownership plan (ESOP) credit (Form 8007). If you have more than one of these credits for 1985, or a carryback or carryforward of any of these credits, you must summarize them on **Form 3800**, General Business Credit. If you have only a 1985 investment credit, you do not have to file Form 3800 this year.

Special Limitations on Automobiles and other "Listed Property".—

(1) The credit on any passenger car may not exceed $1,000 ($667 if you elect the reduced credit) for automobiles placed in service before April 3, 1985. *For cars placed in service after April 2, 1985, the credit may not exceed $675 ($450 if you elect the reduced credit).* Figure the credit by entering in column (2) no more than $16,667 of the basis ($11,250 after April 2, 1985) multiplied by the percentage of business, investment, and production-of-income use;

(2) You may not take ANY credit on the following types of property ("listed property") unless more than 50% of the use of the property during the year was business use:

- any passenger car or other transportation property,
- property of the type generally used for entertainment, recreation, or amusement, and
- computer equipment not used exclusively at a regular business establishment (office in the home must meet the requirements of section 280A(c)(1)).

When you figure this more-than-50% test, do not count use of property for investment or the production of income as business use. Once you have met the test, however, you may include investment and production-of-income use to arrive at your credit.

(3) You must complete Part III of **Form 4562**, Depreciation and Amortization, if you claim investment credit for any listed property.

(4) Employee use of property is considered business use only if it is for the convenience of the employer and required as a condition of employment. See section 280F.

(5) Vehicles used by employees (other than "disqualified persons"), are treated as being used 100% in your trade or business if the value of any personal use is included in the employees' gross income.

General Instructions

A. Purpose of Form.—Use Form 3468 to claim a regular or business energy investment credit or to make certain elections.

Caution: *You may have to refigure the credit if you dispose of the property before the end of the property class life or life years. This also applies if you change the use of the property or if the business use of the property decreases so that it no longer qualifies (in whole or in part) as regular or energy investment credit property. See* ***Form 4255****, Recapture of Investment Credit.*

A partnership or S corporation should complete only the following lines, to figure the cost or basis of property to pass through to the individual partners or shareholders:

- the Part I elections,
- columns (2) of line 1 and the line 2 worksheet,
- lines 3, 4, and 6, and
- columns (2) and (3) for lines 1, 3, and 5 of Schedule B.

Attach the completed form to the partnership or S corporation return to show the total cost or basis that is passed through.

If you are a partner, beneficiary, shareholder in an S corporation, or lessee, use Form 3468 to figure the credit based on your share of the investment by the partnership, estate, trust, S corporation, or lessor.

For more details on investment credit, see **Publication 572**, Investment Credit, and regulations under sections 46 and 48.

B. How to Figure the Credit.—For recovery property, the class of property determines the percentage qualifying for investment credit. Even if you elect an alternate recovery period under section 168(b) of 5 or 12 years for 3-year property, the property is still treated as 3-year property, and the lower percentage applies. For nonrecovery property, the useful life of the property for investment credit must be the same as the useful life for depreciation or amortization.

See section 48 for special rules on movie and television films, sound recordings, and sale-leasebacks.

See section 46(e) for limitations on the investment credit for mutual savings institutions, regulated investment companies, and real estate investment trusts.

Generally, you may only take half of the regular credit for certain vessels. See sections 46(g)(1) through (6). If you claim the full credit, check box C in Part I of Form 3468.

C. Investment Credit Property.—Generally, you may take investment credit the first year you place qualified property in service, or make qualified progress expenditures.

The property must be used in a trade or business and be either recovery property or other depreciable property with a life of 3 years or more. Enter only the business part if property is for both business and personal use.

Generally, investment credit property is:

(1) Tangible personal property as defined in section 48(a)(1).

(2) Certain elevators and escalators.

(3) Other tangible property, including certain real property, used as an integral part of manufacturing, production, or extraction, or used as a research or bulk storage facility for fungible commodities for these activities.

(4) Livestock other than horses as long as you do not sell or dispose of substantially identical livestock (not subject to recapture tax) during the 1-year period beginning 6 months before the date you got the livestock. Reduce the cost of the livestock you got by the amount you received on the disposition of the substantially identical livestock.

(5) Single-purpose agricultural or horticultural structures. See section 48(p).

(6) Rehabilitation expenditures for qualified 30-year buildings, 40-year buildings, and certified historic structures. See sections 46(b)(4) and 48(g).

(7) Forestation and reforestation expenditures amortizable under section 194. See section 48(a)(1)(F).

(8) Petroleum storage facilities (but not buildings or their structural components).

Exceptions.—Investment credit generally does not apply to property that is:

(1) Used mainly outside the U.S.

(2) Used by a tax-exempt organization (other than a section 521 farmers' cooperative) unless the property is used mainly in an unrelated trade or business.

(3) Used by governmental units and foreign persons and entities.

(4) Used for lodging or for furnishing the lodging (see section 48(a)(3) for exceptions, i.e., hotel or motel furnishings).

(5) Amortized or depreciated under sections 167(k), 184 or 188.

(6) Acquired or constructed with "excluded cost-sharing payments" from grants under any program listed in section 126(a) or by grants under the Energy Security Act.

D. Elections.—

(1) Commuter Highway Vehicle.—Employers may elect (subject to the rules of section 280F) to claim full investment credit for commuter highway vehicles which are placed in service before January 1, 1986, and have a useful life of 3 years or more, or which are recovery property. Check box A in Part I. See section 46(c)(6).

(2) Qualified Progress Expenditures.— You may elect under section 46(d) to increase your qualified investment for the year by qualified progress expenditures. This permits you to claim investment credit on a long-term construction project before it is completed and placed in service. Check box B in Part I. The election applies to all progress expenditure property for the tax year it is made and all later tax years.

(3) Election for Leased Property.—If you lease property to someone else, you may elect to treat all or part of your investment in new property as if it were made by the person who is leasing it from you. See section 48(d) and regulations for rules on making this election and special rules on leased property and the section 48(q) basis adjustment. For limitations see sections 46(e)(3) and 48(d)(6).

E. At Risk Limitation for Individuals and Closely Held Corporations.—The cost or basis of property for investment credit purposes may be limited if you borrowed against the property and are protected against loss, or if you borrowed money from a person who is related or who has other than a creditor interest in the business activity. The cost or basis must be reduced by the amount of this "nonqualified nonrecourse financing" related to the property as of the close of the tax year in which it is placed in service. See Publication 572 and sections 46(c)(8) and 465 for details. If there is an increase during a later year of this nonqualified nonrecourse financing, you may have to refigure the credit on Form 4255.

Specific Instructions

Lines 1(a)-1(h). Recovery Property.—Enter the basis of recovery property in column (2). This is generally the cost of the property reduced by any personal-use factor and by any portion that was expensed under section 179. It includes all items properly included in the depreciable basis, such as installation and freight costs. Recovery property is tangible personal property used in a trade or business or held for the production of income, and depreciated under the Accelerated Cost Recovery System (ACRS). See sections 46(c)(7), 168 and 280F.

You must reduce the depreciable basis of the property by one-half of the investment credit taken. Instead of reducing the depreciable basis of the property, however, you may make an election under section 48(q) to take a reduced credit. You make this election by listing the property on lines 1(e)-1(h) instead of on lines 1(a)-1(d). See Publication 572 for more details.

Line 2. Nonrecovery Property.—Compute your qualified investment using the worksheet format below. Nonrecovery property includes:

- property you elect to depreciate using a method not expressed in terms of years;
- property you elect to amortize (e.g., leasehold improvements);
- property transferred or acquired merely to bring the property under ACRS;
- property acquired in certain nonrecognition transactions;
- certain property used outside the U.S.;
- public utility property if you do not use the normalization method of accounting.

See section 168(e) for further details.

Enter the amortizable basis in forestation and reforestation expenditures on line 2(c) of the worksheet. See section 48(a)(1)(F). See section 46(c)(5) for rules for certain pollution control facilities.

Lines 1(a), 1(b), 1(e), and 1(f) of form; lines 2(a), 2(b), and 2(c) of worksheet. Qualified Progress Expenditures.—Enter on the proper line the amount of qualified progress expenditures made in the tax year.

Do not take any qualified progress expenditures for the year the property is placed in service or for the year for which recapture is required for the property. The credit allowed for the year the property is placed in service is based on the entire qualified investment reduced by the progress expenditures included as qualified investment in earlier years. See section 46(d) for more information.

Lines 1(c), 1(d), 1(g), and 1(h) of form; lines 2(d), 2(e), and 2(f) of worksheet. Used Property Dollar Limitation.—In general, you may not take into account more than $125,000 of the cost of used property in any one year. This does not include the basis of any property traded in unless the trade-in caused the recapture of all or part of an investment credit allowed earlier, or a reduction in an investment credit carryback or carryforward. Determine the $125,000 amount before applying the percentages based on the class of property or useful life. Enter the cost (subject to the dollar limitation) of used property placed in service during the year. Property inherited, received as a gift, or acquired from certain related persons does not qualify for the investment credit.

If a husband and wife file separate returns, each may claim up to $62,500. If one of them has no qualifying used property, the other may claim up to $125,000.

The $125,000 limitation applies to a partnership, S corporation, estate, or trust. The $125,000 must be divided among the estate or trust and its beneficiaries based on the income of the estate or trust allocable to each. The $125,000 limitation also applies to each partner, shareholder or beneficiary. Controlled corporate groups must divide the limitation among all component members. See section 48(c) and related regulations.

Lines 3 and 4. Commuter Highway Vehicle.—Enter 100% of basis in new vehicles on line 3, and 100% of cost (subject to the overall limitation) of used vehicles on line 4.

If you make the election to use the lower percentage in section 48(q)(4) instead of reducing the basis of the property, enter 80% (instead of 100%) of the cost or basis on these lines. If you elect to take a reduced credit on all the vehicles on line 3 or 4, write "48(q)(4) election property" in the margin. If your election covers only certain vehicles, attach a schedule showing the breakdown.

Lines 6a, 6b, and 6c. Rehabilitation Expenditures.—You may take a credit for certain capital costs incurred for additions or improvements to qualified existing buildings and for rehabilitation of certified historic structures. The expenditures must be added to the basis of the building and depreciated by the straight-line method over 18 years (15 years in the case of low-income housing). The applicable percentage for qualified rehabilitation expenditures is 100%.

The increase in depreciable basis resulting from the expenditures must be decreased by 100% of the allowed credit (50% for certified historic structures). See section 212(e)(2) of the Economic Recovery Tax Act of 1981 for transitional rules and Code section 48(g) for other details. The qualified investment for rehabilitation expenditures that qualify under pre-1982 rules, but not under post-1981 rules, is figured separately and entered in the total for line 5. (Identify this amount in the margin.)

If you are claiming a credit for a certified historic structure on line 6c, you must attach a copy of your request for final certification from the National Park Service (NPS Form 10-168c). (Do not do this if the line 6c credit is a flow-through from a partnership, S corporation, estate or trust because that entity will attach a copy to its return. Instead write "$ ________ FROM PARTNERSHIP" (or "S CORP.," etc.) on the dotted line to the left of the entry column.)

Lines 5, 6, and 18a Limitations.— Mutual savings institutions, regulated investment companies, and real estate investment trusts are subject to special limitations for the amounts to be entered on lines 5, 6 a-c, and line 18a. See regulations section 1.46-4.

Line 11. Credit from Cooperative.—Section 1381(a) cooperative organizations may claim investment credit. If the cooperative cannot use any of the credit because of the tax liability limitation, the unused credit must be allocated to the patrons of the cooperative. The recapture provisions of section 47 apply as if the cooperative had kept the credit and not allocated it. Patrons should enter their regular investment credit from a cooperative on line 11.

Unused Credits.—If you cannot use part of the credit because of the tax liability limitations or the operation of the alternative minimum tax, you may carry it back 3 years, then forward 15 years.

Line 16c. Other filers.—Before you can claim the investment credit against your income tax liability, you must reduce this tax liability by the credits listed below:

- Personal credits
- Foreign tax credit
- Possessions corporation tax credit
- Orphan drug credit
- Nonconventional source fuel credit
- Research credit

Line 18. Limitation.—If the tax liability on line 17 is $25,000 or less, your investment credit is limited to that tax liability. If the tax liability is more than $25,000, your credit is limited to $25,000 plus 85% of the excess.

If you and your spouse file separate returns, each must use $12,500 instead of $25,000. But if only one has *any* investment, that one may use the entire $25,000.

Controlled corporate groups (see section 46(a)(6)) must divide the $25,000 among all component members.

Estates and trusts must determine the percentage of total income allocable to the estate or trust itself, and apply the percentage to the $25,000 limit on line 18a.

Line 2 Nonrecovery Property Worksheet	Line	(1) Life Years	(2) Basis or Cost	(3) Applicable Percentage	(4) Qualified Investment (Column 2 x column 3)
New	(a)	3 or more/less than 5		33⅓	
	(b)	5 or more/less than 7		66⅔	
	(c)	7 or more		100	
Used	(d)	3 or more/less than 5		33⅓	
	(e)	5 or more/less than 7		66⅔	
	(f)	7 or more		100	
Total—Add lines (a) through (f) and enter on line 2 of Form 3468.				2	

Form **3800**
Department of the Treasury
Internal Revenue Service

General Business Credit

► **Attach to your tax return.**

OMB No. 1545-0895
1985
25

Name(s) as shown on return

Identifying number

Part I Tentative Credit

1 Investment credit (Form 3468, line 14) 1
2 Jobs credit (Form 5884, line 7) 2
3 Credit for alcohol used as fuel (Form 6478, line 11) 3
4 Employee stock ownership plan (ESOP) credit (Form 8007, line 3) 4
5 **Current year general business credit**—Add lines 1 through 4 5
6 Carryforward of general business credit (or investment, WIN, jobs, alcohol fuel, or ESOP credits) . . 6
7 Carryback of general business credit to 1985 7
8 Tentative general business credit—Add lines 5, 6, and 7 8

Part II Tax Liability Limitations

9 a Individuals—From Form 1040, enter amount from line 46 . . . . .
b Corporations —From Form 1120, Schedule J, enter tax from line 3 (or Form 1120-A, Part I, line 1) . . . . .
c Other filers—Enter income tax before credits from return 9

10 a Individuals—From Form 1040, enter credit from line 47, plus any orphan drug, nonconventional source fuel, and research credits included on line 49 . . . . .
b Corporations—From Form 1120, Schedule J, enter credits from lines 4(a) through 4(e) (Form 1120-A filers, enter zero) . . . . .
c Other filers—See instructions for line 10c 10

11 Income tax liability as adjusted—Subtract line 10 from line 9 11
12 a Enter smaller of line 11 or $25,000 (See instructions for line 12) 12a
b If line 11 is more than $25,000—Enter 85% of the excess 12b
13 Credit limitation—Add lines 12a and 12b 13
14 General business credit—Enter smaller of line 8 or line 13 here and on Form 1040, line 48; Form 1120, Schedule J, line 4(f); Form 1120-A, Part I, line 2; or the proper line on other returns 14

General Instructions

(Section references are to the Internal Revenue Code.)

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Purpose of Form.—The general business credit consists of the investment credit (Form 3468), jobs credit (Form 5884), alcohol fuel credit (Form 6478), and employee stock ownership plan (ESOP) credit (Form 8007). If you have more than one of these credits, or a carryback or carryforward of any of these credits, you must summarize them here on Form 3800. *If you have only one of these credits for 1985, you do not have to file Form 3800. Instead, use that particular form to claim the credit.* For example, if you have only a 1985 investment credit, you may use Form 3468 to claim your credit for 1985. You do not have to file Form 3800 in this case.

Please note that you do not have to take the jobs, alcohol fuel, or ESOP credits if you do not wish to.

For more information on the investment credit, see **Form 3468**, Computation of Investment Credit, or **Publication 572**, Investment Credit.

For more information on the jobs credit, see **Form 5884**, Jobs Credit, or **Publication 906**, Jobs and Research Credits.

For more information on the alcohol fuel credit, see **Form 6478**, Credit for Alcohol Used as Fuel.

For more information on the ESOP credit, see **Form 8007**, Credit for Employee Stock Ownership Plan.

Carryback and Carryforward of Unused Credit.—If you cannot use part or all of the credit on line 5 because of the tax liability limitation on line 13 or the operation of the alternative minimum tax, you may carry any excess back to each of the three preceding tax years, beginning with the earliest. If you have an unused credit after carryback, it may be carried forward to each of the 15 years after the year of the credit. Credits unused after 15 years may be deducted at that time (or earlier if the taxpayer dies or goes out of business). (But see sections 196 and 404(i) for certain limitations.)

Although the investment, jobs, alcohol fuel, and ESOP credits are aggregated as the general business credit, you may want to keep separate records of these credits to ensure that no credits or deductions are lost.

Specific Instructions

Line 6.—All carryforwards of unused investment credit, jobs credit (and WIN credit carryover), alcohol fuel credit, and ESOP credit are added together and become a business credit carryforward to 1985.

Line 10c—Other filers.—Before you can claim the general business credit against your income tax liability, you must reduce this tax liability by the following credits:

- Personal credits
- Foreign tax credit
- Possessions corporation tax credit
- Orphan drug credit
- Nonconventional source fuel credit
- Research credit

Line 12.—If your adjusted tax liability (line 11) is $25,000 or less, your general business credit is limited to that liability. If the tax liability is more than $25,000, your credit is limited to $25,000 plus 85% of the excess.

If you and your spouse file separate returns, each must use $12,500 instead of $25,000. However, if only one has *any* business credit, that one may use the entire $25,000.

Controlled corporate groups must divide the $25,000 among all component members. See section 38(c)(3)(B).

Estates and trusts must first determine what percentage of the total income is allocable to the estate or trust itself, then apply that same percentage to the $25,000 amount on line 12a.

See section 38(c)(3)(C) for limitations on the credit for mutual savings institutions, regulated investment companies, and real estate investment trusts.

Form **3903**

Department of the Treasury
Internal Revenue Service (X)

Moving Expense Adjustment

▶ Attach to Form 1040.

OMB No. 1545-0062

1985

62

Name(s) as shown on Form 1040

Your social security number

a	Enter the number of miles from your **old** residence to your **new** work place	a	
b	Enter the number of miles from your **old** residence to your **old** work place	b	
c	Subtract line **b** from line **a**. Enter the result (but not less than zero) ▶	c	

If line **c** is 35 or more miles, complete the rest of this form. If line **c** is less than 35 miles, you may not take a deduction for moving expenses. This rule does not apply to members of the armed forces.

1	Transportation expenses in moving household goods and personal effects			1	
2	Travel, meal, and lodging expenses in moving from old to new residence			2	
3	Pre-move travel, meal, and lodging expenses in looking for a new residence after getting your job	3			
4	Temporary living expenses in new location or area during any 30 days in a row after getting your job	4			
5	Add lines 3 and 4	5			
6	Enter the smaller of line 5 or $1,500 ($750 if married, filing a separate return, and, at the end of the tax year, you lived with your spouse who also started work during the tax year)	6			
7	Expenses of (check one): **a** ☐ selling or exchanging your old residence; or **b** ☐ if renting, settling an unexpired lease on your old residence	7			
8	Expenses of (check one): **a** ☐ buying your new residence; or **b** ☐ if renting, getting a lease on your new residence	8			
9	Add lines 6, 7, and 8	9			
10	Enter the smaller of line 9 or $3,000 ($1,500 if married, filing a separate return, and, at the end of the tax year, you lived with your spouse who also started work during the tax year)			10	
	Note: *Use any amount on line **7a** not deducted because of the $3,000 (or $1,500) limit to decrease the gain on the sale of your residence. Use any amount on line **8a** not deducted because of the limit to increase the basis of your new residence. See **No Double Benefit** in the instructions.*				
11	Add lines 1, 2, and 10. This is your moving expense deduction. Enter here and on Form 1040, line 24. **(Note:** *If your employer paid for any part of your move (including the value of any services furnished in kind), report that amount on **Form 1040, line 7**. See **Reimbursements** in the instructions.)* ▶			11	

General Instructions

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Purpose of Form.—Use Form 3903 if you moved to a new principal work place within the United States or its possessions and you qualify to deduct your moving expenses.

Note: *Use **Form 3903F,** Foreign Moving Expense Adjustment, instead of this form if you are a U.S. citizen or resident alien who moved to a new principal work place outside the United States or its possessions.*

Additional Information.—For more information about moving expenses, please get **Publication 521,** Moving Expenses.

Who May Deduct Moving Expenses.—If you moved your residence because of a change in the location of your job, you may be able to deduct your moving expenses. You may qualify for a deduction whether you are self-employed or an employee. However, you must meet certain tests of distance and time, explained below.

Distance Test.—Your new work place must be at least 35 miles farther from your old residence than your old work place was. For example, if your old work place was 3 miles from your old residence, your new work place must be at least 38 miles from that residence. If you did not have an old work place, your new work place must be at least 35 miles from your old residence. (The distance between two points is the shortest of the more commonly traveled routes between the points.)

Time Test.—If you are an employee, you must work full time for at least 39 weeks during the 12 months right after you move. If you are self-employed, you must work full time for at least 39 weeks during the first 12 months and a total of at least 78 weeks during the 24 months right after you move.

You may deduct your moving expenses for 1985 even if you have not met the time test before your 1985 return is due. You may do this if you expect to meet the 39-week test by the end of 1986 or the 78-week test by the end of 1987. If you have not met the test by then, you will have to do one of the following:

- Amend your 1985 tax return on which you deducted moving expenses. To do this, use **Form 1040X,** Amended U.S. Individual Income Tax Return; or
- Report as income on your tax return for the year you cannot meet the test the amount you deducted on your 1985 return.

If you do not deduct your moving expenses on your 1985 return, and you later meet the time test, you may file an amended return for 1985, taking the deduction. To do this, use Form 1040X.

Exceptions to the Distance and Time Tests.—You do not have to meet the time test in case of death or if your job ends because of disability, transfer for your employer's benefit, or layoff or other discharge besides willful misconduct.

You do not have to meet the time test if you meet the requirements, explained below, for retirees or survivors living outside the United States.

If you are in the armed forces, you do not have to meet the distance and time tests if the move is due to a permanent change of station. A permanent change of station includes a move in connection with and within 1 year of retirement or other termination of active duty. In figuring your moving expenses, do not deduct any moving expenses for moving services that were provided by the military or that were reimbursed to you and that you did not include in income. However, you may deduct your unreimbursed moving expenses, subject to the dollar limits. If you and your spouse and dependents are moved to or from different locations, treat the moves as a single move.

Qualified Retirees or Survivors Living Outside the United States.—If the requirements below are met, retirees or survivors who move to a U.S. residence are treated as if they moved to a new work place located in the United States. You are subject to the dollar limits and distance test explained on this form. Use this form instead of Form 3903F to claim your moving expenses.

Retirees.—You may deduct moving expenses for a move to a new residence in the United States when you actually retire, if both your old principal work place and your old residence were outside the United States.

Survivors.—You may deduct moving expenses for a move to a residence in the United States if you are the spouse or dependent of a person whose principal work place at the time of death was outside the United States. In addition, the expenses must be: (1) for a move that begins within 6 months after the decedent's death; and (2) must be from a former residence outside the United States that you lived in with the decedent at the time of death.

Moving Expenses in General.—You may deduct most, but not all, of the reasonable expenses you incur in moving your family and dependent household members. You may not include moving expenses for employees such as a servant, governess, or nurse.

Examples of expenses you **MAY** deduct are:

- Travel, meal, and lodging expenses during the move to the new residence;
- Temporary living expenses in the new location; and
- Pre-move travel expenses.

Examples of expenses you **MAY NOT** deduct are:

- Loss on the sale of your residence;
- Mortgage penalties;
- Cost of refitting carpets and draperies; and
- Losses on quitting club memberships.

Reimbursements.—You must include any reimbursement of, or payment for, moving expenses in gross income as compensation for services. If your employer paid for any part of your move, you must report that amount as income on **Form 1040, line 7.** Your employer should include the amount paid in your total income on Form W-2. However, if you are not sure that the reimbursements have been included in your Form W-2, check with your employer. Your employer must give you a statement showing a detailed breakdown of reimbursements or payments for moving expenses. Your employer may use **Form 4782,** Employee Moving Expense Information, to give you the required breakdown of reimbursements, or your employer may use his or her own form.

No Double Benefit.—You may not take double benefits. For example, you may not use the moving expenses on line 7 that are part of your moving expense deduction to lower the amount of gain on the sale of your old residence. In addition, you may not use the moving expenses on line 8 that are part of your moving expense deduction to add to the cost of your new residence. (Use **Form 2119,** Sale or Exchange of Principal Residence, to figure the gain, if any, you must report on the sale of your old residence and the adjusted cost of the new one.)

Dollar Limits.—Lines 1 and 2 (costs of moving household goods and travel expenses to your new residence) are not limited to any amount. All the other expenses (lines 3, 4, 7, and 8) together may not be more than $3,000. In addition, line 3 (househunting trip expenses) and line 4 (temporary living expenses) together may not be more than $1,500. These are overall per-move limits.

There are some special situations:

- If both you and your spouse began work at new work places and shared the same new residence at the end of the tax year, you must treat this as one move rather than two. If you file separate returns, each of you is limited to a total of $1,500 for lines 3, 4, 7, and 8; and to a total of $750 for lines 3 and 4.
- If both you and your spouse began work at new work places but each of you moved to separate new residences, this is treated as two separate moves. If you file a joint return, lines 3, 4, 7, and 8 are limited to a total of $6,000; and lines 3 and 4 are limited to a total of $3,000. If you file separate returns, each of you is limited to a total of $3,000 for lines 3, 4, 7, and 8; and to a total of $1,500 for lines 3 and 4.

Line-by-Line Instructions

To see if you meet the distance test, complete lines **a** through **c** at the top of the form. If line **c** is at least 35 miles, or you are a member of the armed forces, continue with the items that follow.

We have provided specific instructions for most of the lines on the form. Those lines that do not appear in these instructions are self-explanatory.

Line 1.—Enter the actual cost of packing, crating, moving, storing in transit, and insuring your household goods and personal effects.

Line 2.—Enter the costs of travel from your old residence to your new residence. These include transportation, meals, and lodging on the way, including costs for the day you arrive. You may only include expenses for one trip. However, all the members of your household do not have to travel together or at the same time. If you use your own car, you may figure the expenses in either of the following two ways:

- Actual out-of-pocket expenses for gas and oil (keep records to verify the amounts); or
- At the rate of 9 cents a mile (keep records to verify your mileage).

You may add parking fees and tolls to the amount claimed under either method.

Line 3.—Include the costs of travel before you move in order to look for a new residence. You may deduct the costs only if:

- You began the househunting trip after you got the job; and
- You returned to your old residence after looking for a new one; and
- You traveled to the general location of the new work place primarily to look for a new residence.

There is no limit on the number of househunting trips made by you and members of your household that may be included on this line. Your househunting does not have to be successful to qualify for this deduction. If you used your own car, figure transportation costs the same way as in the instructions for line 2. If you are self-employed, you may deduct these househunting costs only if you had already made substantial arrangements to begin work in the new location.

Line 4.—Include the costs of meals and lodging while occupying temporary quarters in the area of your new work place. You may include these costs for any period of 30 days in a row after you get the job, but before you move into permanent quarters. If you are self-employed, you may count these temporary living expenses only if you had already made substantial arrangements to begin work in the new location.

Lines 7 and 8.—You may include most of the costs to sell or buy a residence or to settle or get a lease. Examples of expenses you **MAY** include are:

- Sales commissions;
- Advertising costs;
- Attorney's fees;
- Title and escrow fees;
- State transfer taxes; and
- Costs to settle an unexpired lease or to get a new lease.

Examples of expenses you **MAY NOT** include are:

- Costs to improve your residence to help it sell;
- Charges for payment or prepayment of interest; and
- Payments or prepayments of rent.

Check the appropriate box, **a** or **b,** for lines 7 and 8 when you enter the amounts for these two lines.

Form **4136**
Department of the Treasury
Internal Revenue Service (X)

Computation of Credit for Federal Tax on Gasoline and Special Fuels

(And Credit for Purchase of Qualified Diesel-Powered Highway Vehicles)
▶ Attach this form to your income tax return.

OMB No. 1545-0162
1985
26

Name (as shown on your income tax return)

Social security or employer identification number

Type of Use	A. Number of Gallons Used	B. Rate of Tax	C. Multiply Column A by Column B
	Gasoline and Gasohol, Diesel Fuel, and Other Special Motor Fuels		
1 Qualified diesel-powered highway vehicles (See instruction E.)			$
2 Nonhighway:			
a Farm (for farming purposes) (Ground applicators of agricultural substances, see instruction C.1.):			
(i) Gasoline		.09	
(ii) Diesel fuel		.15	$
(iii) Special fuels		.09	
b Commercial fishing vessel (See instructions C.2. and D.2.(b).):			
(i) Gasoline		.09	
(ii) Diesel fuel		.15	$
(iii) Special fuels		.09	
c Off-highway business (specify)			
(i) Gasoline		.09	
(ii) Diesel fuel		.15	$
(iii) Special fuels		.09	
3 a Intercity, local, and school buses (See instruction C.4.)		.09/.12	
b Qualified local buses (See instruction D.2.(c).)		.15	$
4 Gasoline/Alcohol Mixture		.0566	$
5 a Diesel/Alcohol Mixture		.06	
b Special Fuels/Alcohol Mixture		.06	$
6 Qualified taxicab		.04	$
Aviation Fuel			
7 Farm (for farming purposes) (Aerial applicators of agricultural substances, see instruction C.1.)		.09/.12/.14 *	$
8 Aviation (Applies only to commercial or certain helicopter uses as defined in instruction C.7.)		.09/.12/.14 *	$
9 Total income tax credit claimed (add lines 1 through 8). Enter here and on Form 1040, line 62; Form 1120, line 32f; Form 1120-A, line 28f; Form 1120S, line 26b; Form 1041, line 33b; or the proper line of other returns.			$

* *Use rate paid or allowable rate if less*

Instructions

(Section references are to the Internal Revenue Code)

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Purpose of Form.—File this form if you claim credit for Federal excise tax on gasoline and gasohol, diesel fuel, and other special fuels used for certain types of business uses or the credit for diesel-powered highway vehicles.

Figure the credit by multiplying the number of gallons used by the rate of Federal excise tax paid or the allowable rate if lesser.

An individual, estate, trust, or corporation may file this form, but a partnership may not. However, when a partnership files **Form 1065**, it must include a statement showing how many gallons of the fuels are allocated to each partner, the types of use, and the applicable tax rate as shown on this form.

A. Refund Instead of Credit.—If you paid excise tax of at least $1,000 ($200 for gasoline/alcohol mixture and $50 for gasoline, diesel fuel, or special fuels used in a qualified taxicab) on any fuel category used in any one of the first three quarters of the tax year, you may file for a refund of the tax instead of claiming a credit for it on Form 4136. To claim the refund, file **Form 843**, Claim, before the end of the quarter following the one for which you are claiming the refund. Show separate computations for a claim on gasoline and special fuels. You may use Form 4136 as a worksheet to show your computations and attach it to the Form 843 you file.

You must claim a credit, rather than a refund, for any tax paid during the fourth quarter, and for any tax under $1,000 ($200 for gasoline/alcohol mixture and $50 for gasoline, diesel fuel, or special fuels used in a qualified taxicab) for any fuel used in the first three quarters. You must also claim the credit rather than a refund, for tax paid on gasoline or special fuels used on a farm for farming purposes.

Do not claim a credit on Form 4136 for any amount that you previously claimed as a refund.

B. Year To Include the Credit Or Refund In Income.—When you claim a credit or refund, you must include it in your gross income to the extent that it reduced your income tax. The year you include it depends on your method of accounting. This rule does not apply to the credit claimed on line 1.

1. Cash Method.—If you use the cash method, include the amount of the credit in gross income in the tax year that you file the tax return claiming the credit. If you file an amended return, or if you file a claim for credit or refund (and claim the credit for the tax), include the refund that results from the credit in your gross income for the tax year you receive it.

2. Accrual Method.—If you use the accrual method, figure the amount of the credit or refund due at the close of your tax year. Include it in income, even if you have not filed a claim for refund.

C. What Gasoline To Include.—You may claim credit for Federal excise tax on gasoline or gasohol for farm uses, commercial fishing vessel uses, off-highway business uses, intercity, local, or school bus uses, qualified taxicab use, and commercial or certain helicopter aviation uses.

1. Farm Use.—You may claim a credit for gasoline used for farming in a trade or business farm in the United States in the amount of 9¢ a gallon. (See instruction C. 7. for aviation fuel used for farming.) Such farms include the following: stock, dairy, poultry, fur-bearing animals, truck farms, plantations, ranches, nurseries, ranges, greenhouses, and orchards.

Gasoline is considered used for farming only if the owner, tenant, or operator of the farm uses the gasoline. If gasoline is used for the farming tasks set forth below by anyone else, the owner, tenant, or operator is considered the user of the gasoline. There is an exception to this rule. An aerial or ground applicator of agricultural substances is considered to have used gasoline for farming when performing the farming tasks under the following conditions:

- The applicator is the ultimate purchaser of the gasoline; and
- The farm owner, tenant, or operator agrees not to be treated as the user and ultimate purchaser of the gasoline.

The following tasks are considered farming:

(a) Cultivating the soil, and raising or harvesting any horticultural or agricultural commodity. This includes raising livestock, bees, poultry, fur-bearing animals, and wildlife.

(b) Handling, drying, packing, grading, or storing any horticultural or agricultural commodity before manufacture, but only if the owner, tenant, or operator produced more than half of the commodity treated.

(c) Planting, cultivating, or cutting trees, or preparing them for market. This does not include milling the lumber.

(d) Operating, managing, conserving, improving, or maintaining the farm and its tools and equipment.

Gasoline is not considered used by you for farming if it is used:

(a) Off the farm to transport livestock, feed, crops, or equipment.

(b) In processing, packaging, freezing, or canning operations.

(c) For personal purposes.

(d) On the farm of another person, even though used for farming.

Often a vehicle is used on the farm both for farming and for nonfarming purposes. In these cases, show the number of gallons of gasoline used for each purpose when claiming a credit.

2. Commercial Fishing Vessel Use.—You may claim a credit for tax paid on gasoline used in a commercial fishing vessel in the amount of 9¢ a gallon. A commercial fishing vessel is one used in the fisheries or whaling business and used:

- Exclusively for catching shrimp and other types of aquatic life for sale commercially as bait; or
- On specific trips exclusively for catching fish to be sold commercially.

3. Off-highway Business Uses.—You may claim a credit for tax paid on gasoline used for off-highway business purposes in the amount of 9¢ a gallon. Off-highway business use does not include gasoline used in a motorboat that is not a commercial fishing vessel, or in a highway vehicle that either:

- Is registered or required to be registered for highway use under the laws of any state, the District of Columbia, or a foreign country; or
- Is owned by the United States and is used on the highway.

4. Intercity, Local, or School Bus Uses.— If you are the ultimate purchaser of gasoline for a bus that provides transportation (1) to the general public for a fee, or (2) to students and school employees, you may claim a credit for tax paid on gasoline used for this service in the amount of 9¢ a gallon.

If you provide transportation on intercity and local buses on nonscheduled irregular routes, you may take the credit only if the seating capacity of the bus is at least 20 adults, not including the driver.

5. Gasoline/Alcohol Mixture.—You may claim a credit for tax paid on gasoline that you used to produce a gasoline/alcohol mixture that was sold or used in your trade or business. The credit is 5⅔¢(.0566) a gallon if you paid 9¢ a gallon.

6. Qualified Taxicab Use.—The ultimate purchaser may claim a credit for tax paid on gasoline used before October 1, 1985, in a qualified taxicab providing qualified taxicab service in the amount of 4¢ a gallon.

A qualified taxicab is a land vehicle that holds fewer than 10 adults including the driver. For 1978 and later model years, the vehicle model must have a fuel economy rating better than the average fuel economy standard for the model year (18 mpg for 1978 models, 19 mpg for 1979, 20 mpg for 1980, 22 mpg for 1981, 24 mpg for 1982, 26 mpg for 1983, 27 mpg for 1984 and 27½ mpg for 1985). A taxicab is qualified if the vehicle received or could have received an exemption from the fuel economy standard for the model year. Fuel economy standards do not apply for vehicles acquired before 1979.

Qualified taxicab service means furnishing nonscheduled land transportation for a fixed fee in a qualified taxicab. The person operating the taxicab must be properly licensed as a taxicab driver and must not be prohibited from furnishing ride-sharing.

7. Farming, Commercial, or Helicopter Aviation Uses.—You may claim a credit for tax paid on aviation gasoline used in farming, commercial, or certain helicopter aviation uses in the amount of 9¢ or 12¢ a gallon, whichever is paid.

See C.1. for the definition of farm use.

Commercial aviation is the use of an aircraft in a business of carrying people or property by air for pay. The use of an aircraft may be considered noncommercial aviation if the aircraft:

(a) Has a maximum certificated takeoff weight of 6,000 pounds or less and is not operated on an established line; or

(b) Is owned or leased by a member of an affiliated group and is not available for hire to nonmembers.

Helicopter uses are:

(a) Transporting individuals, equipment, or supplies in the exploration for, or the development or removal of, hard minerals, or the exploration for oil or gas; or

(b) The planting, cultivation, cutting, or transportation of, or caring for, trees (including logging operations),

but only if the helicopter does not take off from, or land at, a facility eligible for assistance under the Airport and Airway Development Act of 1970, or otherwise use services provided pursuant to the Airport and Airway Improvement Act of 1982 during such use.

D. What Special Fuels To Include.—

1. Definitions of Special Fuels.—

(a) Diesel Fuel.—This fuel is a liquid that is:

(1) Sold for use in a diesel-powered highway vehicle; or

(2) Used for fuel in a diesel-powered highway vehicle unless there was a taxable sale of the fuel under (1) above.

(b) Special Motor Fuels.—These fuels include benzol, benzene, naphtha, liquefied petroleum gas, casing head and natural gasoline and other liquid, except kerosene, gas oil, fuel oil, diesel fuel, or any product taxable under section 4081. Special motor fuels must be:

(1) Sold for use as a fuel in a motor vehicle or motorboat; or

(2) Used for fuel in a motor vehicle or motorboat. (This use is not taxable if there was a taxable sale of the fuel under (1) above.)

(c) Diesel/Alcohol Mixture.—You may claim a credit for tax paid on diesel fuel that is later used in a mixture of diesel fuel and alcohol if it is at least 10% alcohol. The allowable credit is 6¢ a gallon.

(d) Special Fuel/Alcohol Mixture.—You may claim a credit for tax paid on special fuels that are later used in a mixture of a special fuel and alcohol if it is at least 10% alcohol. The allowable credit is 6¢ a gallon.

2. Uses of Special Fuels.—

(a) Farm Use.—You may claim a credit for tax paid on diesel fuel in the amount of 15¢ a gallon that was for farm use. You may claim a credit for tax paid on special motor fuels in the amount of 9¢ a gallon. See instruction C.1. for definition of farm use.

(b) Commercial Fishing Vessel Use.—You may claim a credit for tax paid on diesel fuel in the amount of 15¢ a gallon. You may claim a credit for tax paid on special motor fuels in the amount of 9¢ a gallon. See instruction C.2. for definition of commercial fishing vessel use.

(c) Intercity, Local, or School Bus Uses.—You may claim a credit for tax paid on diesel fuel in the amount of 12¢ a gallon.

You may claim a credit of 15¢ a gallon for tax paid on diesel fuel if the fuel is used in a qualified local bus. A "qualified local bus" is any local bus which has a seating capacity of at least 20 adults (not including the driver), and which is under contract (or is receiving more than a nominal subsidy) from any state or local government to furnish such transportation. You may claim a credit for tax paid on special motor fuels in the amount of 9¢ a gallon. See instruction C.4. for definition of intercity, local, and school bus uses.

(d) Qualified Taxicab Use.—You may claim a credit for tax paid on fuels used before 10/1/85 in the amount of 4¢ a gallon. See C.6. for definition of qualified taxicab use.

(e) Farming, Commercial, or Helicopter Aviation Uses.—You may claim a credit for tax paid on fuels in the amount of 14¢ a gallon that were for farming, commercial, or helicopter aviation uses. See instruction C.1. for definition of farming uses and instruction C.7. for definition of commercial or helicopter aviation uses.

(f) Nontaxable Uses.—Diesel and Special Motor Fuel.—These fuels (defined in D.1.) may qualify for a credit in any of the following cases:

- You resold the fuel.
- You used the fuel for a nontaxable purpose.
- You used the fuel for a purpose that was not the one you bought it for. This other purpose must make a lower tax rate apply.

If any of these three conditions exist, claim as a credit the figure you get by subtracting (a) the tax that applies to the actual use of the fuel, from (b) the tax imposed by section 4041 on the fuel sold to you.

E. Purchase of Qualified Diesel-Powered Highway Vehicles.—If you purchased a diesel-powered highway vehicle after 1/1/85, for a use other than resale and you are the first purchaser, you may claim a credit of $102 for an automobile and $198 for a light truck or van. A qualified diesel-powered highway vehicle is any diesel-powered highway vehicle which has at least 4 wheels, has a gross vehicle weight rating of 10,000 pounds or less, and is registered for highway use in the United States under the laws of any state. Enter the credit on line 1 of Form 4136. If you purchased more than one vehicle that qualifies for the credit, add the allowable credits and enter them on line 1.

F. What Fuels Not To Include.—Do not include gasoline lost or destroyed through spillage, accident, or shrinkage. Such gasoline is not considered to be used and therefore does not qualify for credit or refund.

G. Additional Information.—Publication 225, Farmer's Tax Guide, and **Publication 378,** Fuel Tax Credits, are available from the Internal Revenue Service.

Form **4137**

Department of the Treasury
Internal Revenue Service

Computation of Social Security Tax on Unreported Tip Income

(Under Federal Insurance Contributions Act)

▶ Attach to Form 1040.

OMB No. 1545-0059

1985

64

Name of person who received tip income. Enter name as shown on social security card.

Social security number

Names of employers.

1 Total cash and charge tips **received** in 1985. (**Note:** *Include December 1984 tips reported to your employer from January 1, 1985, through January 10, 1985. Do not include December 1985 tips reported to your employer from January 1, 1986, through January 10, 1986.*) See **"When Tips Are Taxable"** in the instructions			1	
2 Total cash and charge tips **reported** to your employer in 1985			2	
3 Balance (subtract line 2 from line 1). Enter here and include in total on Form 1040, line 7			3	
4 Cash and charge tips you received but did not report to your employer because the total was less than $20 in a calendar month			4	
5 Balance (subtract line 4 from line 3)			5	
6 Largest amount of wages (including tips) subject to social security tax	6	39,600 00		
7 Total social security wages shown on Form W-2 or railroad retirement compensation shown on statement. (Include covered wages you received as an agricultural or household employee.)	7			
8 Balance (subtract line 7 from line 6). If line 7 is more than line 6, you do not owe this tax. Do not complete the rest of this form or Schedule U below			8	
9 Unreported tips subject to social security tax. Enter here and on Schedule U below the amount from line 5 or line 8, whichever is smaller			9	
10 Multiply line 9 by .0705. Enter here and on Form 1040, line 54 ▶			10	

For Paperwork Reduction Act Notice, see instructions on back.

Form **4137** (1985)

Do Not Detach

SCHEDULE U
(Form 1040)
Department of the Treasury
Internal Revenue Service

U.S. Schedule of Unreported Tip Income

For crediting to your social security record

1985

Important: The amounts reported below are for your social security record. This record is used in figuring any benefits, based on your earnings, payable to you, your dependents, and your survivors. Fill in each item accurately and completely.

Print or type name of person who received tip income. Enter name as shown on social security card.

Social security number

Address (number and street)

Occupation

City or town, state, and ZIP code

Unreported tips subject to social security tax. Enter amount from line 9 above ▶ $

Please do not write in this space

DLN—

Instructions

Paperwork Reduction Act Notice

We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Purpose of Form

Form 4137 is used to figure the amount of tip income to be reported on your tax return and social security record.

Who Must File

File this form if you received cash and charge tips of $20 or more in any month and did not report all of those tips to your employer. You must also file this form if you are reporting any part of the allocated tips shown on your Form W-2 as income on line 7 of Form 1040.

Tips You Must Report To an Employer

You must give your employer a written statement of cash and charge tips if you receive $20 or more in tips during a month. If, in any month you work for two or more employers and receive tips while working for each, the $20 test applies separately for the tips you received for your work for each employer and not to the total you receive. You must report these tips to your employers by the 10th day of the month after the month you receive them.

Certain Tips You Do Not Report on This Form

Do not report on this form tips received:

- for work covered by the Railroad Retirement Tax Act (contact any Railroad Retirement Board office for information on how to get railroad retirement credit for tips not reported to railroad employers); or
- while working for state or local governments.

When Tips Are Taxable

If you report tips to your employer as required by the 10th day of the month after the month you receive them, those tips are considered income to you in the month you report them. For example, tips you receive in December of 1985 that you report to your employer between January 1, 1986, and January 10, 1986, are considered income in 1986 and should be included on your 1986 Form W-2. (Do not include these tips in line 1 of this form.)

Tips you did not report to your employer on time or did not report at all are considered income to you in the month you actually received them. For example, tips you received in December of 1985 that are reported to your employer after January 10, 1986, are considered income in 1985 because you did not report to your employer on time. (Include these tips in line 1 of this form.) Also include on line 1 of this form and on line 7 of Form 1040, any allocated tips shown on your Form W-2 unless you can show that you did not receive this amount. See **Publication 531**, Reporting Income From Tips, for more information.

Payment of Tax

Tips you report to your employer are subject to social security or railroad retirement tax and income tax withholding. Your employer collects these taxes from wages (excluding tips) or other funds of yours available to cover them. If your wages are not enough to cover these taxes, you may give your employer the additional amounts needed. Your Form W-2 will include the tips you reported to your employer and the taxes withheld. If there was not enough money to cover the social security or railroad retirement tax, your Form W-2 will also show the tax due.

Penalty for Not Reporting Tips

If you do not report the tips you are required to report to your employer, you may be charged a penalty equal to 50% of the social security tax due on those tips. Therefore, you should attach a statement to your return explaining why you did not report them.

For more information, see Publication 531 and **Publication 505,** Tax Withholding and Estimated Tax, available from most Internal Revenue Service offices.

Form **4255**
(Rev. September 1985)
Department of the Treasury
Internal Revenue Service

Recapture of Investment Credit
(Including Energy Investment Credit)

▶ **Attach to your income tax return.**

OMB No. 1545-0166
Expires 8-31-88

65

Name(s) as shown on return

Identifying number

Properties	Kind of property—State whether recovery or nonrecovery (see the Instructions for Form 3468 for definitions). If energy property, show type. Also indicate if rehabilitation expenditure property.
A	
B	
C	
D	
E	

	Computation Steps: (see Specific Instructions)	**Properties**				
		A	**B**	**C**	**D**	**E**
Original Investment Credit	**1** Original rate of credit					
	2 Date property was placed in service					
	3 Cost or other basis					
	4 Original estimated useful life or class of property					
	5 Applicable percentage					
	6 Original qualified investment (line 3 times line 5)					
	7 Original credit (line 1 times line 6)					
	8 Date property ceased to be qualified investment credit property					
	9 Number of full years between the date on line 2 and the date on line 8					
Computation of Recapture Tax	**10** Recapture percentage (from instructions)					
	11 Tentative recapture tax (line 7 times line 10)					

Computation of Recapture Tax	**12** Add line 11, columns A through E	
	13 Enter tax from property ceasing to be at risk, or for which there was an increase in nonqualified nonrecourse financing (attach separate computation)	
	14 Total—Add lines 12 and 13	
	15 Portion of original credit (line 7) not used to offset tax in any year, **plus** any carryback and carryforward of credits you can now apply to the original credit year because you have freed up tax liability in the amount of the tax recaptured (Do not enter more than line 14—see instructions)	
	16 Total increase in tax—Subtract line 15 from line 14. Enter here and on the proper line of your tax return.	

General Instructions

(Section references are to the Internal Revenue Code, unless otherwise noted.)

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Purpose of Form.—Use Form 4255 to figure the increase in tax for the recapture of investment credit for regular and energy property. You must refigure the credit if you took it in an earlier year, but disposed of the property before the end of the recapture period or the useful life you used to figure the original credit. You must also refigure the credit if you changed the use of the property so that it no longer qualifies as regular or energy investment credit property. For example, you must refigure the credit if you change the use of property from business use to personal use, or if there is any decrease in the percentage of business use of investment credit property. See sections 47(a)(3) and 47(a)(5)(C) for information on recapture for progress expenditure property. Also, see the instructions for line 13 regarding recapture if property ceases to be at risk, or if there is an increase in nonqualified, nonrecourse financing related to certain at-risk property placed in service after July 18, 1984.

If certain "listed property" (i.e., transportation property, entertainment, recreation or amusement property, or certain home computer equipment) placed in service after June 18, 1984, ceases to be used predominantly for business, you may have to recapture investment credit taken on the property. See section 280F for details.

An election to be treated as an S corporation does not automatically trigger recapture of investment credit taken before the election was effective. However, the S corporation is liable for any recapture of investment credit taken before the election.

If property on which you took both regular and energy investment credit ceases to be energy credit property, but still qualifies as regular investment credit property, you need only refigure the energy investment credit. However, if you took both credits, and you dispose of the property, or the property ceases to be both energy and regular investment credit property, you must refigure both credits.

If you are an S corporation, a partnership, or an estate or trust that allocated any or all of the investment credit to the beneficiaries, you must give your shareholders, partners, or beneficiaries the information they need to refigure the credit. See regulations sections 1.47-4, 1.47-5 and 1.47-6.

Partners, shareholders and beneficiaries.—If your Schedule K-1 shows that you must recapture investment credit taken in an earlier year, you will need your retained copy of the original Form 3468 to complete lines 1 through 9 of this Form 4255.

Special Rules.—If you took a credit on the following kinds of property, see the sections listed below before you complete Form 4255:

Property	Section
Motion picture films and video tapes	47(a)(8)
Ships	46(g)(4)
Commuter highway vehicles	47(a)(4)

If you took any nonconventional source fuel credit, see section 29(b)(4).

If, before the end of the recapture period, you dispose of recovery property placed in service after 1982 (or the business use percentage decreases), increase the basis of this property by 50% of the recapture amount unless you originally made the section 48(q)(4) election to take a reduced credit instead of reducing the basis of the property.

For more information, see **Publication 572,** Investment Credit.

Specific Instructions

Note: *Do not figure the recapture tax on lines 1 through 12 for property ceasing to be at risk, or if there is an increase in nonqualified nonrecourse financing related to certain at-risk property placed in service after July 18, 1984. Figure the recapture tax for these properties on separate schedules and enter the recapture tax on line 13. Include any unused credit for these properties on line 15.*

Lines A through E.—Describe the property for which you must refigure the credit.

Fill in lines 1 through 11 for each property on which you are refiguring the credit. Use a separate column for each item. If you must recapture both the energy investment credit and the regular investment credit for the same item, use a separate column for each credit. If you need more columns, use additional Forms 4255, or other schedules with all the information shown on Form 4255. Enter the total from the separate sheets on line 12.

Line 1.—Enter the rate you used to figure the original credit from the tables below:

Regular Investment Property

Qualifying property acquired or constructed and placed in service	10%

Be sure to include any ESOP credit, or other credits listed under the special rules above.

See section 46(b)(4) for the rates for qualified rehabilitation expenditures made after 1981.

Energy Investment Property

Alternative energy property, specially defined energy property, recycling equipment, shale oil equipment, equipment for producing natural gas from geopressured brine, cogeneration equipment, and intercity buses	10%
Qualified hydroelectric generating equipment	11%
Solar and wind equipment acquired or constructed before 1980	10%
Solar and wind equipment, ocean thermal equipment, and geothermal equipment acquired or constructed after 1979	15%

Line 2.—For both recovery and nonrecovery property, enter the first day of the first month, and the year, that the property was available for service.

Line 3.—Enter the cost or other basis that you used to figure the original credit.

Line 4.—Enter the estimated useful life that you used to figure the original credit for nonrecovery property. Enter the class of property for recovery property.

Line 5.—Enter the applicable percentage that you used to figure the original qualified investment from the tables below:

Nonrecovery Property

Original estimated useful life	Applicable percentage
3 or more but less than 5 years	33⅓%
5 or more but less than 7 years	66⅔%
7 or more years	100%

Recovery Property

Class of property	Applicable percentage
3-year	60%
Other	100%

Section 48(q) Election Recovery Property

(Placed in service after 12/31/82)

Class of property	Applicable percentage
3-year	40%
Other	80%

Line 8.—Generally, this will be the date you disposed of the property. See regulations section 1.47-1(c) for more information.

Line 9.—Do not enter partial years. If the property was held less than 12 months, enter zero.

Line 10.—Enter the recapture percentage from the following tables:

Nonrecovery Property

If number of full years on line 9 of Form 4255 is:	The recapture percentage for property with an original useful life of:		
	3 or more but less than 5 years is	5 or more but less than 7 years is	7 or more years is
0	100	100	100
1	100	100	100
2	100	100	100
3	0	50	66.6
4	0	50	66.6
5	0	0	33.3
6	0	0	33.3

Recovery Property

If number of full years on line 9 of Form 4255 is:	The recapture percentage for:	
	3-year property is	Other than 3-year property is
0	100	100
1	66	80
2	33	60
3	0	40
4	0	20

Decrease in Business Use.—If you take investment credit for property and the percentage of business use in a later year falls below the percentage for the year placed in service, you are treated as having disposed of part of the property and may have to recapture part of the investment credit.

For example, if you are a calendar-year taxpayer who bought a $12,000 automobile in August 1984 and used it 90% for business, your investment credit for 1984 would have been $900 (90% of the $1,000 limit for automobiles placed in service from June 19, 1984, through April 2, 1985). If business use in 1985 fell to 60%, you are treated as having disposed of one-third ((90 – 60) ÷ 90) of the automobile on January 1, 1985 (since business use is computed on a tax-year basis and a decrease in business use is deemed to take place on the first day of the tax year). Multiply the recapture percentage from the table above (100%) by one-third and enter the result (33.3%) on line 10 of the form.

Line 12.—If you have used more than one Form 4255, or separate sheets to list additional items on which you figured an increase in tax, write on the dotted line "Tax from attached, $ ...." Include the amount in the total for line 12.

Line 13.—For certain taxpayers, the basis or cost of property placed in service after February 18, 1981, is limited to the amount the taxpayer is at risk for the property at year end. For property placed in service after July 18, 1984, the basis or cost must be reduced by the amount of any "nonqualified, nonrecourse financing" related to the property at year end. If property ceases to be at risk in a later year, or if there is an increase in nonqualified, nonrecourse financing, recapture may be required. See section 47(d) for details. Attach a separate computation schedule to figure the recapture tax and enter the total tax on line 13.

Line 15.—If you did not use all the credit you originally figured, either in the year you figured it or in a carryback or carryforward year, you do not have to recapture the amount of the credit you did not use. In refiguring the credit for the original credit year, be sure to take into account any carryforwards from previous years, plus any carrybacks arising within the 3 taxable years after the original credit year that are now allowed because the recapture and recomputation of the original credit made available some additional tax liability in that year. See regulations section 1.47-1(d), Revenue Ruling 72-221, and Publication 572 for more information.

Figure the unused portion on a separate sheet and enter it on this line. Do not enter more than the recapture tax on line 14.

REMINDER: Be sure to adjust your *current* unused credit to reflect any unused portion of the original credit that was recaptured on this form.

Form **4506**
(Rev. October 1985)
Department of the Treasury
Internal Revenue Service

Request for Copy of Tax Form or Tax Account Information

▶ **Please read instructions before completing this form.**

OMB No. 1545-0429
Expires 3-31-88

Important: Full payment must accompany your request.

1 Name of taxpayer(s) as shown on tax form

5 Social security or employer identification number as shown on tax form

2 Current name and address

6 Spouse's social security number as shown on tax form

7 Tax form number (Form 1040, 1040A, etc.)

3 If information is to be mailed to someone else, show the third party's name and address

8 Tax period(s) (1983, etc.) (No more than 4 per request)

4 If name in third party's records differs from item 1 above, show here (See instructions for items 3 and 4.)

9 Amount due:

a Cost checked in item 10	$
b Number of periods requested in item 8	
c Total cost (multiply item 9a by item 9b)	$
Make check payable to IRS	▨

10 Describe what you want (Check only one box)

$4.25/each period requested ☐ Copy of tax form and all attachments

Note: *If you need these copies for court or administrative proceedings, check here* ☐ *also.*

$2.25/each period requested ☐ Tax account information only

Please Sign Here ▶

Signature

Date

Title (If item 1 above is a corporation, partnership, estate or trust)

Telephone number of requester

( )

Convenient time for us to call

Instructions

Privacy Act and Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need the information to gain access to your return in our files and properly respond to your request. If you do not furnish the information, we may not be able to fill your request.

Purpose of Form.—Use this form to request a copy of a tax return or tax account information.

Note: *If you had your return filled out by a paid preparer, check first to see if you can get a copy. This may save you both time and money.*

If you are not the taxpayer shown in item 1, you must send a copy of your authorization to receive the information. This will generally be a power of attorney, tax information authorization, or evidence of entitlement (for Title 11 Bankruptcy or Receivership Proceeding). If the taxpayer is deceased, you must send enough evidence to establish that you are authorized to act for the taxpayer's estate.

Tax returns and return information about joint returns may be disclosed to either the husband or the wife. Only one signature is required. If your name has changed, sign Form 4506 exactly as your name appeared on the return and also sign with your current name.

Please allow at least 45 days for delivery when requesting a copy of a return, or at least 30 days when requesting return information. (You must allow at least 6 weeks processing time after a return is filed before requesting a copy or other information.)

Corporations, Partnerships, Estates, and Trusts.—For rules on who may obtain tax information on the entity, see Internal Revenue Code section 6103.

Items 3 and 4.—If you have named someone else to receive the information (such as a CPA, scholarship board, or mortgage issuer), **you must include the name of an individual** with the address in item 3. Also, be sure and write the name of the client, student, or applicant in item 4 if it is different from the name shown in item 1. For example, item 1 may be the parents of a student applying for financial aid. Show the student's name in item 4 so the scholarship board will know what file to associate the return information with. If we cannot find a record of your return, we will notify the third party directly that we cannot fill the request.

Item 5.—For individuals, the social security number is written 000-00-0000. For businesses and certain others, the employer identification number is written 00-0000000. Please separate the nine digits as shown, to distinguish the type of number being reported.

Item 8.—Enter the year(s) of the tax form you are requesting. For fiscal-year filers or requests for quarterly returns, enter the date the period ended. If you need more than four different periods, use additional request forms. Returns which were filed six or more years ago may not be available for making copies. However, tax account information is generally still available for these periods.

(Continued on back)

Item 9.—Use the following table to figure how much money you must send with your request:

Type of request	Cost for each period requested
Copy of tax return.	$4.25
Tax account information.	$2.25

Example: *You wish to figure your 1985 tax using the income averaging method. You have a copy of your 1984 tax return, but you do not have a copy of your 1982 or 1983 returns. Check the first box in item 10 because you need a copy of the returns. Your cost will be $8.50 ($4.25 x 2 years).*

Write your social security number or Federal employer identification number and "Form 4506 Request" on your check. If we cannot fill your request, we will refund your money.

Item 10.—In addition to a copy of a return, we can provide another type of information: a listing of certain tax account information.

Tax Account Information Only.—Students applying for financial aid may be required to give the college a copy of their tax return. The school may, however, permit you to use tax return information provided by the IRS instead. If so, the following information will be sent:

(a) Type of return filed,
(b) Marital status,
(c) Tax shown on return,
(d) Adjusted gross income,
(e) Taxable income,
(f) Self-employment tax, and
(g) Number of exemptions.

Tax account information should not be used for income averaging, because the taxable income listed is computed from the tax table amount as a cross check, and may vary somewhat from the return amount. Get a copy of the return for the exact amount.

Form 1040A or 1040EZ Verification.—States issuing certain qualified mortgage subsidy bonds are required to verify that the mortgage applicant did not own a home during the three previous years. As part of this verification, the mortgage issuer may want proof that you did not claim real estate interest or tax deductions on a residence. A request for tax account information will show that Form 1040A or 1040EZ has been filed for a particular year or years. This will verify that no itemized deductions were claimed. Please write **"Mortgage Subsidy Bond"** across the top of Form 4506.

If you filed Form 1040, you will have to get a copy of your return to verify that you did not claim any itemized deductions on a residence. Remember, if you have kept a copy of your tax return, or if it was filled out by a paid preparer and you can get a copy, the mortgage lender may accept this.

Where to File.—After you have completed Form 4506, send it to the service center where the tax return was filed. The addresses are listed in the next column.

Note: *You must use a separate Form 4506 for each service center from which you are requesting information. You must also use a separate form if you request both return information and return copies.*

If you lived in ▼	Please mail to the following Internal Revenue Service Center ▼
New Jersey, New York City and counties of Nassau, Rockland, Suffolk, and Westchester	P.O. Box 888 Holtsville, NY 11742
New York (*all other counties*), Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont	P.O. Box 3006 Woburn, MA 01888
Alabama, Florida, Georgia, Mississippi, South Carolina	P.O. Box 47412 Doraville, GA 30362
Michigan, Ohio	P.O. Box 145500 Cincinnati, OH 45214
Arkansas, Kansas, Louisiana, New Mexico, Oklahoma, Texas	P.O. Box 2943 Austin, TX 78769
Alaska, Arizona, Colorado, Idaho, Minnesota, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	TPR/Photocopy 3B P.O. Box 9956 Ogden, UT 84409
Illinois, Iowa, Missouri, Wisconsin	P.O. Box 1040 Kansas City, MO 64141
California, Hawaii	5045 E. Butler Avenue Fresno, CA 93888
Indiana, Kentucky, North Carolina, Tennessee, Virginia, West Virginia	P.O. Box 2501 Memphis, TN 38101
Delaware, District of Columbia, Maryland, Pennsylvania, outside the United States	P.O. Box 920 Bensalem, PA 19020

Form **4562**

Department of the Treasury
Internal Revenue Service (X)

Depreciation and Amortization

▶ See separate instructions.
▶ Attach this form to your return.

OMB No. 1545-0172

1985

67

Name(s) as shown on return

Identifying number

Business or activity to which this form relates

Part I Depreciation

Use Part III, Specific Information Concerning Automobiles and other Listed Property, for certain transportation equipment (e.g. autos), amusement/recreation property, and computer/peripheral equipment.

Section A.—Election to Expense Recovery Property (Section 179)

	(a) Class of property	(b) Cost	(c) Expense deduction
1			

2 Listed property—Enter total from Part III, Section A, column (h) . . . .

3 Total (see instructions for limitations). (Partnerships or S corporations—see the Schedule K and Schedule K-1 Instructions of Form 1065 or 1120S) . . . .

Section B.—Depreciation of Recovery Property

(a) Class of property	(b) Date placed in service	(c) Cost or other basis	(d) Recovery period	(e) Method of figuring depreciation	(f) Deduction
4 Accelerated Cost Recovery System (ACRS) (see instructions): *For assets other than automobiles and other listed property placed in service* **ONLY** *during tax year beginning in 1985*				▨	▨
a 3-year property	▨				
b 5-year property	▨				
c 10-year property	▨				
d 15-year public utility property	▨				
e Low-income housing					
f 15-year real property					
g 18-year real property					
(See "Items You Should Note")					

5 Listed property—Enter total from Part III, Section A, column (g) . . . .

6 ACRS deduction for assets other than automobiles and other listed property placed in service prior to 1985 (see instructions) . . . .

Section C.—Depreciation of Nonrecovery Property

7 Property subject to section 168(e)(2) election (see instructions) . . . .

8 Other depreciation (see instructions) . . . .

Section D.—Summary

9 Total (Add deductions on lines 3 through 8). Enter here and on the Depreciation line of your return (Partnerships and S corporations—Do NOT include any amounts entered on line 3.) . . . .

Part II Amortization

(a) Description of property	(b) Date acquired	(c) Cost or other basis	(d) Code section	(e) Amortization period or percentage	(f) Amortization for this year

Total. Enter here and on Other Deductions or Other Expenses line of your return . . . .

See Paperwork Reduction Act Notice on page 1 of the separate instructions.

Part III Specific Information Concerning Automobiles and Other Listed Property

For property used 50% or less in a trade or business, the section 179 expense deduction is not allowed. For listed property used 50% or less in a trade or business, depreciation MUST be computed under the straight-line method.

Section A.—Depreciation of Automobiles and Other Listed Property (see instructions for limitations)

Item No.	(a) Description (list vehicles first)	(b) Date placed in service	(c) Business use percentage (%)	(d) Cost or other basis	(e) Recovery period	(f) Method of figuring depreciation	(g) Deduction	(h) Section 179 expense
1								
2								
3								
4								
5								
6								
7								
8								
9								
Total (Enter here and on line 2, page 1.)							▨	
Total (Enter here and on line 5, page 1.)								▨

Section B.—Questions Regarding Use of Automobiles and Other Listed Property

	Yes	No
To Be Completed by All Filers:		
1 Do you have evidence, for all the listed property above, to support the business use percentage claimed?		
2 Is the evidence written?		
To Be Completed by Employers Who Provide Vehicles for Use by Employees:		
3 Do you maintain a written policy statement, meeting the conditions described in the instructions, that prohibits all personal use of vehicles, including commuting, by your employees?	▨	▨
If "Yes," do not complete items 6 through 12 for any of the vehicles furnished to employees that are covered by the written policy statement.	▨	▨
4 Do you maintain a written policy statement, meeting the conditions described in the instructions, that prohibits personal use of vehicles, except commuting, by your employees?	▨	▨
If "Yes," you must complete items 6 through 12: (a) only for those vehicles furnished to "disqualified persons" even if they are covered by the statement; and (b) for all vehicles not covered by the statement.	▨	▨
5 Do you provide more than five vehicles to your employees, or treat all use of vehicles by employees as personal use?		
If "Yes," you do not have to answer questions 6 through 12: (a) for vehicles furnished to other than disqualified persons, or (b) if you treat all use of vehicles by employees as personal use. You must retain the information received from your employees regarding the use of the vehicles.	▨	▨

Section C.—Information Regarding Use of Vehicles

	Vehicle 1	Vehicle 2	Vehicle 3	Vehicle 4	Vehicle 5	Vehicle 6
6 Total miles driven during the year						
7 Total business miles driven during the year						
8 Total commuting miles driven during the year						
9 Total other personal (non-commuting) miles driven						

	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
10 Was the vehicle available for personal use during off-duty hours?												
11 Is another vehicle available for personal use?												
12 Was the vehicle used primarily by a disqualified person?												

1985

Department of the Treasury
Internal Revenue Service

Instructions for Form 4562

Depreciation and Amortization

(Section references are to the Internal Revenue Code, unless otherwise noted.)

Paperwork Reduction Act Notice

We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Items You Should Note

At the time these instructions went to print, Congress was considering legislation that would extend the recovery period for real property placed in service after May 9, 1985, to 19 years. IRS will publicize the new applicable percentages if this legislation is enacted. The entry space below line 4g will be used to claim the depreciation deduction attributable to such property.

- Any "listed property" that was used more than 50% in a trade or business in the year it was placed in service, but in the current tax year is used 50% or less, is subject to recapture of any excess depreciation. See **Form 4797**, Gains and Losses From Sales or Exchanges of Assets Used in a Trade or Business and Involuntary Conversions, and its instructions for details.
- All taxpayers claiming a deduction or credit for any "listed property" (e.g., automobiles, computers, and property used for purposes of entertainment, recreation and amusement) are required to complete Part III, Specific Information Concerning Automobiles and Other Listed Property, on page 2, regardless of when such property was placed in service.
- Certain taxpayers claiming a depreciation deduction for automobiles and similar vehicles must complete Section C, Part III.
- For automobiles placed in service after April 2, 1985, the depreciation deduction for each vehicle, including any section 179 expense deduction, is limited to $3,200 in the first tax year, and $4,800 in each succeeding tax year. These limitations are further reduced if your business and/or investment use is less than 100%.
- As an alternative to depreciation, you may elect to use the standard mileage allowance in the first year the automobile is placed in service. For more information, see **Publication 463**, Travel, Entertainment, and Gift Expenses.
- Taxpayers are required to provide in Part I information only on recovery property (other than automobiles and other listed property) acquired in the current tax year.
- A separate listing of non-recovery property, other than automobiles and other listed property, is not required to be filed with IRS.
- All details of depreciation should be retained as part of your permanent books and records.

Purpose of Form

Use Form 4562 to claim this year's deduction for depreciation and amortization, to make the election to expense recovery property, and to provide information concerning the business use of automobiles and other listed property.

In using this form, a taxpayer has the option of preparing and submitting either: a separate Form 4562 for each business or activity in the return, or a separate depreciation schedule for each business or activity along with one Form 4562 on which the taxpayer enters summary totals for each line on page 1 of the form. If the second option is used, each separate schedule must be readily identifiable with the business or activity to which it relates.

For more information about depreciation, the election to expense newly acquired recovery property, and leased listed property, see **Publication 534**, Depreciation. For more information about amortization (including depreciation/amortization of leasehold expenses), see **Publication 535,** Business Expenses. You may be eligible to take investment credit on newly acquired depreciable property. See the instructions for **Form 3468**, Computation of Investment Credit, for more information.

Specific Instructions

Part I.—Depreciation

Depreciation is an amount you can deduct each year for assets, except land, you acquire to use in your business or hold to produce income. (Land is never depreciable.) Depreciation starts when you place the property in service. It ends when you take the property out of service, deduct all of your depreciable cost, or no longer use the property in your trade or business.

Any depreciation taken for listed property in excess of the straight-line method, may be subject to recapture in any succeeding tax year in which the business use percentage does not exceed 50%. See section 280F.

Complete Section A of Part III on page 2 for depreciation of all listed property, regardless of when such property was placed in service.

Note: *All taxpayers are required to provide all information requested, and answer the pertinent questions, for all listed property, regardless of date placed in service.*

Generally, assets you place in service after December 31, 1980, are depreciated using the Accelerated Cost Recovery System (ACRS). These assets are called "recovery property." You may be able to elect to expense up to $5,000 of certain recovery property in Section A. Show your depreciation for recovery property in Section B. If you have an asset that is nonrecovery property, show your depreciation in Section C.

Section A.—Election to Expense Recovery Property.— You may choose to expense part of the cost of recovery property that would qualify for the investment credit. To do so, you must have purchased (as defined in section 179(d)(2)) the property and placed it in service during the 1985 tax year for use in your trade or business. If you take this deduction, the amount on which you figure your depreciation or amortization deduction and your investment tax credit must be reduced by the amount you deduct as a section 179 expense. This is because you may not depreciate, amortize, or take the investment tax credit on any amount deducted as a section 179 expense.

Note: *The following do not qualify as section 179 property: (1) automobiles and other listed property placed in service in 1985 that are used 50% or less in your trade or business; and (2) property held for the production of income (section 212 property).*

An estate or trust may not elect to expense recovery property. A partnership or S corporation may choose to expense and pass through to its partners or shareholders a maximum of $5,000. Partners or shareholders add their share of the partnership or S corporation amount to any other section 179 expense they choose to take, and deduct the combined amount up to the $5,000 (or $2,500 for married taxpayers filing separately) limit for each taxpayer. See **Publication 572**, Investment Credit, and Publication 534 for more information.

Line 1.—

Column (a).—Enter the class of recovery property (that is, 3-year, 5-year, etc.) for which you make the election and a brief description of the item.

Column (b).—Enter the property's cost. Include only what you paid; omit any undepreciated basis on assets you traded in. For information about basis, see **Publication 551**, Basis of Assets.

Column (c).—Enter the part of the cost you choose to expense. You can choose to expense part of the cost of an asset and depreciate the rest of it. (Generally, you may take the investment credit for the part of the cost you do not deduct as a section 179 expense.)

Line 2.—If you choose to claim a section 179 expense deduction for automobiles and other listed property, complete Section A, Part III. For passenger automobiles placed in service before April 3, 1985, depreciation, including the section 179 expense, is limited to $4,000. For passenger automobiles placed in service after April 2, 1985, depreciation, including the section 179 expense, is limited to $3,200.

Line 3.—Enter the column (c) total, up to $5,000 ($2,500 for married taxpayers filing separately). Partnerships should carry the line 3 amount to Schedule K-1 (Form 1065) and Schedule K (Form 1065) (if applicable). S corporations should carry the line 3 amount to Schedule K and Schedule K-1 of Form 1120S.

Section B.—Depreciation of Recovery Property.—

Note: *Lines 4a through 4g should be completed for assets, other than automobiles and other listed property, placed in service only during the tax year beginning in 1985.*

Column (a).—Two factors determine the class of property: whether the property is section 1245 or section 1250 class property; and what midpoint class life (if any) would have applied to it on January 1, 1981, if the asset depreciation range (ADR) system had been elected. The midpoint class lives are listed in the asset guideline period column of the table for depreciation in the back of Publication 534.

In each recovery class, except 15 or 18-year real property, list as one item all new and used property you placed in service in 1985. However, you must list separately:

- Property used mainly outside the United States.
- Retirement-replacement-betterment property.
- Property financed by tax-exempt obligations.
- Property not predominantly used in a qualified business use.
- All listed property (in Part III).

In the 15 and 18-year real property classes, group property by the depreciation method elected and the month and year you placed it in service.

Attach additional sheets, if necessary.

Column (b).—For lines 4e through 4g, enter the month and year you placed it in service.

Column (c).—Enter the unadjusted basis of the assets you placed in service in the same tax year. To find unadjusted basis, subtract the part of the basis you elected to amortize or expense (section 179) from the basis you use to determine gain. Do not deduct salvage value in figuring your ACRS deduction. If the basis of property has to be reduced by one-half of any investment credit taken on it, enter the reduced basis. See Instructions for Form 3468, and Publication 551.

Column (d).—Enter the recovery period you are using. This is usually the class of property itself (that is, 3-year, 5-year, etc.); but you may instead elect an alternate percentage figured by using the straight-line method over one of the following periods.

For—	**You may choose:**
3-year property	3, 5, or 12 years
5-year property	5, 12, or 25 years
10-year property	10, 25, or 35 years
15-year public utility property or 15-year real property	15, 35, or 45 years
18-year real property or low-income housing	18, 35, or 45 years

Also, for certain assets (described in column (e), below) you may be required to use a specified recovery period.

Column (e).—For property for which you are using the prescribed percentages (described in Section B, lines 4a through 4g below), enter "PRE." If you elect an alternate percentage, as described above in column (d) instructions, enter "SL." If the asset is used mainly outside the United States, enter "FP" and see section 168(f)(2). If the asset is retirement-replacement-betterment property, enter "RRB" and see section 168(f)(3). If the asset is property financed by tax-exempt obligations, enter "TEO" and see section 168(f)(12).

Column (f).—Unless you use an alternate percentage, or a special percentage required for certain types of property (as described above in column (e) instructions), multiply the amount in column (c) by the applicable percentage, from the line instructions below, and enter the result in column (f). For property that is not used 100% in a trade or business, or for the production of income, the recovery deduction should reflect the percentage allocated to personal use. If you use an alternate percentage, use the percentage based on the recovery period you chose. Except for 15 and 18-year real property and property requiring a special percentage (as described above), use the same alternate percentage for all property in the same class that you place in service in the same year.

If you elect an alternate percentage, do not figure depreciation by the number of months the property was in use; instead use the half-year convention. The half-year convention treats property as if it were placed in service, or retired, on the first day of the second half of the tax year. However, for 15 and 18-year real property, you can elect an alternate percentage on a property-by-property basis, and the half-year convention does not apply.

Section B, Line 4a—3-year property.—Includes section 1245 class property that:

- Has a midpoint class life of 4 years or less, or
- Is used for research and experimentation, or
- Is a race horse more than 2 years old when you place it in service, or any other horse that is more than 12 years old when you place it in service.

Some examples of 3-year property are: automobiles; light-duty trucks; and machinery and equipment used in connection with research and experiments.

The percentages prescribed for these assets are:

1st year	25%
2nd year	38%
3rd year	37%

Line 4b—5-year property.—Includes section 1245 class property that is not assigned to one of the other recovery classes.

Some examples of 5-year property are: computers and peripheral equipment; office furniture; and single purpose agricultural and horticultural structures (other than a building and its structural components.)

The percentages prescribed for these assets are:

1st year	15%
2nd year	22%
3rd through 5th year	21%

Line 4c—10-year property.—Includes: public utility property (except 3-year property or section 1250 class property) that has a midpoint class life of more than 18 years and no more than 25 years; section 1250 class property that has a midpoint class life of 12.5 years or less; manufactured homes; railroad tank cars; and qualified coal utilization property which would otherwise be 15-year public utility property. However, under a special rule for theme parks, etc., a building and its structural components shall not be treated as having a class life of 12.5 years or less by reason of any use other than the use for which that building was originally placed in service.

The percentages prescribed for these assets are:

1st year	8%
2nd year	14%
3rd year	12%
4th through 6th year	10%
7th through 10th year	9%

Line 4d—15-year public utility property.— Includes public utility property (except 3-year property or 15 or 18-year real property) that has a midpoint class life of more than 25 years.

The percentages prescribed for these assets are:

1st year	5%
2nd year	10%
3rd year	9%
4th year	8%
5th and 6th year	7%
7th through 15th year	6%

Line 4e—Low-income housing.— Includes property described in clause (i), (ii), (iii), or (iv) of section 1250 (a)(1)(B).

Different percentages apply to low-income housing than to 15 or 18-year real property. The percentage to use each year depends on the month you placed the property in service during the tax year. Publication 534 gives complete percentage tables for 15 and 18-year real property. The chart on this page shows for line 4e the percentages prescribed for the first five years.

For qualified rehabilitated buildings, see section 48(g) and Form 3468.

Line 4f—15-year real property.— Includes section 1250 property that does not have a midpoint class life of 12.5 years or less (see special rule for theme parks, etc.) and was under construction or subject to a binding contract on or before March 15, 1984.

Line 4g—18-year real property.— Generally, real property that is placed in service after March 15, 1984, that is NOT low-income housing, will be treated as 18-year real property. This includes section 1250 class property that does not have a midpoint class life of 12.5 years or less. However, under a special rule for theme parks, etc., a building and its structural components shall not be treated as having a class life of 12.5 years or less by reason of any use other than the use for which that building was originally placed in service. Enter property grouped by the depreciation method elected and the month and year you placed it in service. The percentages to be

Line 4e. Low-income housing.—

Year	**Use the column for the month of taxable year placed in service**											
	1	2	3	4	5	6	7	8	9	10	11	12
1st	13%	12%	11%	10%	9%	8%	7%	6%	4%	3%	2%	1%
2nd	12%	12%	12%	12%	12%	12%	12%	13%	13%	13%	13%	13%
3rd	10%	10%	10%	10%	11%	11%	11%	11%	11%	11%	11%	11%
4th	9%	9%	9%	9%	9%	9%	9%	9%	10%	10%	10%	10%
5th	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%	8%	9%

used depend on the month of your tax year in which the property was placed in service. The chart below shows the percentages prescribed for the first three years.

Capital improvements made to buildings placed in service prior to 1981 can qualify as recovery property. Capital improvements placed in service before March 16, 1984, will generally qualify as 15-year real property. Capital improvements placed in service after March 15, 1984, will generally qualify as 18-year real property. Such improvements are to be treated as though they were separate buildings.

Include in lines 4f or 4g only the amount of capital expenditures for improvements that were placed in service in your taxable year beginning in 1985. See section 168(f).

Section B, Line 5.—Enter the depreciation for listed property from Part III, Section A, column (g) on page 2.

Section B, Line 6.—Enter the amount of your ACRS deduction for recovery property, other than automobiles and other listed property, placed in service prior to January 1, 1985. This amount is obtained by multiplying the applicable percentage by the unadjusted basis for each of the prior years for each class of property. DO NOT include any amounts deducted in lines 4a through 5.

For assets, other than automobiles and other listed property, placed in service prior to 1985 and for which a recovery deduction was taken on a previous year's tax return, compute the current year's deduction separately, and enter the amount on line 6. The basis and amounts claimed for depreciation in prior years should be part of your permanent books and records. No attachment is necessary.

Section C.—Depreciation of Nonrecovery Property.—Use Section C for property, other than automobiles and other listed property, you do not amortize, expense, or use ACRS to depreciate. This includes:

- Property placed in service before January 1, 1981;
- Certain public utility property, which does not meet certain normalization requirements;
- Certain property acquired from related persons;
- Property acquired in certain nonrecognition transactions; and
- Certain sound recordings, movies, and videotapes.

Section C, Line 7.—Report property that you elect, under section 168(e)(2), to depreciate by the units-of-production method or any other method not based on a term of years. If you use the retirement-replacement-betterment method, see section 168(f)(3).

On a separate sheet, attach: (1) a description of the property and what depreciation method you elect that excludes the property from ACRS; and (2) the depreciable basis (cost or other basis reduced, if applicable, by salvage value, half the investment credit, and the section 179 expense).

Enter the depreciation deduction for the property in column (f).

Section C, Line 8.— Enter the total amount of depreciation attributable to assets, other than automobiles and other listed property, acquired before January 1, 1981 (pre-ACRS), or property that cannot otherwise be depreciated under ACRS. This amount should be calculated from your permanent books and records. For a sample worksheet, see Publication 534.

Include any amounts attributable to the Class Life Asset Depreciation Range (CLADR) system. If you previously elected the CLADR system, you must continue to use it to depreciate assets left in your vintage accounts. You must continue to meet recordkeeping requirements.

If you elect CLADR for assets that do not qualify for ACRS (see sections 168(e)(1) and (4)), attach a statement that specifies the items that still apply to those listed in Regulations section 1.167(a)-11(f)(2).

Part II.—Amortization

Each year you may elect to deduct part of certain capital expenses over a fixed period. If you amortize property, the part you amortize does not qualify for the election to expense recovery property or depreciation.

Column (a).—Describe the property you are amortizing. Amortizable property includes—

- Pollution control facilities (section 169, limited by section 291 for corporations).
- Bond premiums (section 171).
- Expenses paid before January 1, 1982, for child-care facilities (section 188).
- Amounts paid for research or experiments (section 174), or for a trademark or trade name (section 177).
- Business start-up expenditures (section 195).
- Qualified forestation and reforestation costs (section 194).
- Organizational expenses for a corporation (section 248) or partnership (section 709).
- Certain railroad property (section 185).
- Construction period interest and taxes on real property (for exceptions, see section 189).
- Certain rehabilitation expenses of historic structures made before January 1, 1982 (section 191 (as before repeal by Public Law 97-34) and the transitional rule in Public Law 97-34, section 212(e)(2)).
- Optional write-off of certain tax preferences over the period specified in section 58(i).

Column (b).—Enter the date you acquired or completed the property or spent the amount you are amortizing.

Column (c).—Enter the total amount you are amortizing. See the applicable Code section for limits on the amortizable amount.

Line 4g. 18-year real property.—(mid-month convention)

Year	Use the column for the month of taxable year placed in service											
	1	2	3	4	5	6	7	8	9	10	11	12
1st	9%	9%	8%	7%	6%	5%	4%	4%	3%	2%	1%	0.4%
2nd	9%	9%	9%	9%	9%	9%	9%	9%	9%	10%	10%	10%
3rd	8%	8%	8%	8%	8%	8%	8%	8%	9%	9%	9%	9%

Column (d).—Enter the Code section under which you amortize the property.

Attach any other information the Code and Regulations may require in order to make a valid election. For additional information, see Publication 535.

Part III.—Specific Information Concerning Automobiles and Other Listed Property

All taxpayers claiming either a depreciation or a lease payment deduction for automobiles and other listed property, regardless of the tax year such property was placed in service, are required to provide IRS with information with respect to the deduction. Listed property includes, but is not limited to:

- Passenger automobiles.
- Any other property used as a means of transportation if the nature of the property lends itself to personal use (e.g., motorcycles, pick-up trucks, etc.).
- Any property of a type generally used for purposes of entertainment, recreation, or amusement (e.g., photographic, phonographic, communication, and video recording equipment).
- Computers or peripheral equipment.

For more information, see Temp. Regs. 1.280F-3T.

Section A.—Depreciation of Automobiles and Other Listed Property

Column (a).—List on a property by property basis all of your listed property in the following order:

(1) Automobiles and other vehicles ;
(2) 5-year property (computers and peripheral equipment);
(3) 10-year property; and
(4) 18-year real property.

If you have more than five vehicles used 100% in your trade or business, you may group them by tax year. Otherwise, list all vehicles separately.

Certain vehicles, by their nature, that are not likely to be used except for a de minimis amount of personal use, do not have to be listed separately. Any depreciation deduction claimed for such vehicles should be included in Part I.

If you are claiming a depreciation deduction for computers and peripheral equipment not used 100% at a principal place of business, you must list such items on a property by property basis. Otherwise, include depreciation in Part I.

Column (b).—Enter the date the property was placed in service. Generally, this is the date of purchase, or the date of lease.

Column (c).—Enter the percentage of business use. For automobiles and other "vehicles," this is determined by dividing the number of miles the vehicle is driven for purposes of a trade or business during the year by the total number of miles the vehicle is driven for any purpose. For vehicles used by employees, other than "disqualified persons", treat the vehicles as being used 100% in your trade or business, if the value of personal use is included in the employees' gross income. For more information see Publication 535. For other listed property (e.g., computers or video equipment), allocate the use on a basis of the most appropriate unit of time the property is actually used. See Temp. Regs. 1.280F-6T.

If you have property that is used solely for personal use that is converted to business use during the tax year, see Publication 463.

Column (d).—Enter the property's actual cost. For leased property, enter "N/A."

Column (e).—Enter the recovery period you select. See the instructions for Part I, Section B, column (d), for property used more than 50% in your trade or business.

For any listed property used 50% or less in a qualified business use, the recovery deduction must be determined under the straight-line method using the half-year convention and the following recovery periods. The half-year convention does not apply to 18-year property.

In the case of:	The applicable recovery period is:
3-year property	5 years
5-year property	12 years
10-year property	25 years
18-year real property or low-income housing	40 years

For leased property, enter "N/A."

Column (f).—Enter the method of figuring your depreciation deduction. If you are using the prescribed percentages presented in Part I, Section B, enter "PRE." If you elect an alternate percentage, or if the business percentage is 50% or less, enter "S/L." If you lease the property, and the lessor has not elected under section 48(d) to treat the lessee as having acquired the property, enter "L."

Column (g).—To calculate your allowable depreciation deduction for the current tax year, for property used more than 50% in a qualified trade or business, multiply the property's cost or other basis (column (d)), by the business use percentage (column (c)). Reduce the result by any section 179 expense deduction and one-half of any investment credit claimed. Then, multiply that result by the applicable percentage.

For property used 50% or less in a qualified trade or business, no section 179 expense deduction nor investment credit is allowed. Therefore, multiply the property's cost (column (d)) by the business use percentage (column (c)), then multiply that result by the applicable percentage below.

The following table shows the applicable percentages prescribed for listed property used 50% or less in a trade or business. For complete tables, see Publication 534.

If the recovery year is:	And the recovery period is (in yrs.):		
	5	12	25
1st	10%	4%	2%
2nd	20%	9%	4%
3rd	20%	9%	4%

Limitations for automobiles.—When calculating your depreciation and/or section 179 expense deduction for automobiles for the first tax year in the recovery period, your deduction is limited to $4,000 if placed in service after June 18, 1984, but before April 3, 1985, and $3,200 if placed in service after April 2, 1985.

For succeeding tax years the deduction is limited to $6,000 if placed in service after June 18, 1984, but before April 3, 1985, and $4,800 if placed in service after April 2, 1985.

Note: *These limitations are further reduced when the percentage of business use (column (c)) is less than 100%. For example, if an automobile is placed in service after April 2, 1985, and is used 60 percent for business, then the first year depreciation and/or section 179 expense deduction is limited to 60 percent of $3,200, which is $1,920.*

For leased automobiles, see Publication 534 and Temporary Regulations 1.280F-5T, for amounts to be included in gross income.

Column (h).—Enter the amount you choose to expense for property used more than 50% in a qualified business use, (subject to limitations noted above).

Section B.—Questions Regarding Use of Automobiles and Other Listed Property.

All taxpayers are required to answer Questions 1 and 2, if they are claiming a deduction for an automobile or any other listed property, regardless of the tax year such property was placed in service, whether leased or owned.

For employers providing vehicles to their employees, a written policy statement regarding the use of such vehicles, if initiated and kept by the employer, will relieve the employee of keeping a separate set of records for substantiation requirements.

There are two types of written policy statements that will satisfy the employer's substantiation requirements under section 274(d). The first type which prohibits personal use, including commuting, must meet the following conditions:

- The vehicle is owned or leased by the employer and is provided to one or more employees for use in connection with the employer's trade or business;
- When the vehicle is not used in the employer's trade or business, it is kept on the employer's business premises, unless it is temporarily located elsewhere, for example, for maintenance or because of a mechanical failure;
- No employee using the vehicle lives at the employer's business premises;
- No employee may use the vehicle for personal purposes, other than de minimis personal use (such as a stop for lunch between two business deliveries); and
- The employer reasonably believes that, other than de minimis use, no employee uses the vehicle for any personal purpose.

The second type prohibits personal use, except for commuting. This is NOT available if the employee using the vehicle for commuting is a "disqualified person." For commuting done from January 1, 1985, through March 22, 1985, "disqualified persons" are officers and 5% or more owners of the employer. For commuting done after March 22, 1985, "disqualified persons" are officers and 1% or more owners of the employer. This type of written policy statement must meet the following conditions:

- The vehicle is owned or leased by the employer and is provided to one or more employees for use in connection with the employer's trade or business and is used in the employer's trade or business;
- For bona fide noncompensatory business reasons, the employer requires the employee to commute to and/or from work in the vehicle;
- The employer establishes a written policy under which the employee may not use the vehicle for personal purposes, other than commuting or de minimis personal use (such as a stop for a personal errand between a business delivery and the employee's home);
- The employer reasonably believes that, except for de minimis use, the employee does not use the vehicle for any personal purpose other than commuting;
- The employee required to use the vehicle for commuting is not a disqualified person; and
- The employer accounts for the commuting use by including an appropriate amount in the employee's gross income.

For both written policy statements there must be evidence that would enable the Commissioner to determine whether the use of the vehicle meets the conditions stated above.

Section C.—Information Regarding Use of Vehicles.

Employees are to provide their employers with the information requested in Questions 6 through 12 for each automobile or vehicle provided for his or her use.

Generally, employers providing more than five vehicles to their employees, other than disqualified persons, are not required to complete Questions 6 through 12. Instead, they are to obtain this information from their employees, check "Yes" to Question 5, and retain the information received as part of their permanent records. Generally, employers who provide five or fewer vehicles to their employees are to complete Questions 6 through 12 for each vehicle. However, there are exceptions. See Questions 3 and 4.

Form **4626**

Department of the Treasury
Internal Revenue Service

Computation of Minimum Tax—Corporations

▶ **See instructions for who must file this form.**

▶ **Attach to Forms 1120, 1120-A, 1120F, 1120-FSC, 1120L, 1120M, 1120S, 990-C, and 990-T.**

(Section references are to the Internal Revenue Code, unless otherwise noted.)

OMB No. 1545-0175

1985

Name as shown on tax return	**Employer identification number**

1 Items of tax preference (see specific instructions for each line.)		
a Accelerated depreciation on real property—		
(1) Low-income rental housing (section 167(k))	**1a(1)**	
(2) Other nonrecovery real property or 15 and 18-year real property	**1a(2)**	
b Amortization of certified pollution control facilities.	**1b**	
c Reserves for losses on bad debts of financial institutions	**1c**	
d Depletion	**1d**	
e Capital gains	**1e**	
f Other tax preferences—personal holding companies only	▨	
(1) Accelerated depreciation on leased personal property or leased recovery property other than 15 and 18-year real property	**1f(1)**	
(2) Mining exploration and development costs	**1f(2)**	
(3) Circulation and research and experimental expenditures	**1f(3)**	
(4) Intangible drilling costs	**1f(4)**	
2 Total items of tax preference—Add lines 1a(1) through 1f(4)	**2**	
3 Enter $10,000 exclusion (controlled groups—see instructions for line 3)	**3**	
4 a Enter regular tax deduction (see instructions for line 4a)	**4a**	
b Section 56(e) tax carryover for timber (attach computation—see instructions for line 4b)	**4b**	
c Add lines 4a and 4b	**4c**	
5 Enter greater of line 3 or 4c	**5**	
6 Subtract line 5 from line 2	**6**	
7 Enter 15% of line 6	**7**	
8 1985 net operating loss remaining as a carryover (attach computation) **8**	▨	
9 Deferred minimum tax—Enter the smaller of line 8 multiplied by 15%, or line 7	**9**	
10 Subtract line 9 from line 7	**10**	
11 Enter minimum tax deferred from earlier year(s) (see instructions for line 11)	**11**	
12 Total minimum tax—Add lines 10 and 11. Enter here and on the proper line of your income tax return	**12**	

Instructions

Note: *Estates or trusts with tax preference items must figure alternative minimum tax on those items on **Form 6251**, Alternative Minimum Tax Computation.*

Paperwork Reduction Act Notice.—We ask for this information to carry out the U.S. Internal Revenue laws. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Purpose of Form.—Form 4626 is used by corporations to figure minimum tax on tax preference items. The tax preference items are listed on lines 1a(1) through 1f(4) and are explained in detail under Specific Instructions.

For more information, see **Publication 542**, Tax Information on Corporations.

Who Must File.— Form 4626 must be filed by the following, even if no tax is due:

1. A corporation (other than an Interest Charge Domestic International Sales Corporation (IC-DISC)) that—
   - A. Has tax preference items that total more than $10,000 (or is a member of a controlled group (as defined in section 1563(a)) with total tax preference items that are more than its share of the exclusion), and
   - B. Is not exempt from income tax imposed by Chapter 1 of the Code, or if it is exempt, it has unrelated business income under section 511.
2. Any entity which deferred minimum tax from an earlier tax year.

How Tax Preference Items Are Allocated.—*Regulated Investment Companies and Real Estate Investment Trusts.*—Only the net long-term capital gain in excess of the net short-term capital loss that is not taken into account as income by stockholders is an item of tax preference. (See the special rules in section 291(d) that apply to a real estate investment trust.)

To figure how much of the other tax preference items to enter for a regulated investment company or a real estate investment trust, divide the taxable income of the company or trust by the taxable income figured without the deduction for dividends paid. Multiply the result times each item of tax preference. Enter this amount as the company's or trust's share. The remainder is allocated to the shareholders of the company or trust. The company or trust must advise shareholders of their share of each item of tax preference. All of the accelerated depreciation on real property (including ACRS deductions on 15 and 18-year real property) is a tax preference item of real estate investment trusts. Do not allocate any of it to shareholders.

S Corporations.—S corporations are subject to the minimum tax only on capital gains subject to the tax imposed by section 1374. All other items of tax preference are divided among the shareholders as explained in section 1366(a). The capital gains are not divided in this way because the gains are passed through to shareholders as modified by section 1366(f).

Participants in Common Trust Funds.—Items of tax preference of a common trust fund (as defined in section 584(a)) for each tax year of the fund are treated as belonging to the participants of the fund. Each item of tax preference, except capital gains, is prorated among the participants. Capital gains are passed through directly to participants under section 584(c).

Foreign Source Tax Preference Items.—Tax preference items from foreign sources are included in figuring the minimum tax only when they result in foreign losses that reduce the tax imposed on U.S. income. Capital gains from foreign sources are items of tax preference only if the tax laws of the foreign country or U.S. possession give them preferential treatment. (See section 58(g)(2).)

Specific Instructions

Limitations on Amounts Treated as Tax Preferences.—See section 58(h) for limitations on amounts treated as tax preference items in certain cases where the item of tax preference resulted in no tax benefit. If limitations apply, attach a schedule showing their computation.

Line 1.—Tax preferences:

a Accelerated depreciation on real property must be figured separately for each property.

(1) Enter the amount by which the depreciation of expenditures to rehabilitate low-income rental housing under section 167(k) is more than the deduction allowable for the year under the straight line method over a recovery period of 15 years.

(2) For nonrecovery property, enter the amount by which the depreciation or amortization taken on section 1250 property is more than the deduction allowable under the straight line method. If you use the Class Life Asset Depreciation Range (CLADR) System, see Regulations section 1.57-1(b)(4)(i).

Generally, for real property placed in service after March 15, 1984, the recovery period is 18 years (15 years for property placed in service before March 16, 1984). Include the amount by which the section 168(b)(2) deduction (ACRS) exceeds the amount allowable under the straight line method (with no salvage value) over the 15 or 18-year period.

However, if the actual recovery period (i.e., section 168(b)(3) election) is longer than the 15 or 18-year period, the minimum tax will not apply.

b Amortization of certified pollution control facilities.—For each certified pollution control facility placed in service before January 1, 1983, include the amount by which the amortization allowable under section 169 is more than the depreciation deduction otherwise allowable. For each certified pollution control facility placed in service after 1982, and before 1985, include 71.6% of the amount (after reduction under section 291) by which the amortization allowable is more than the depreciation deduction otherwise allowable. For a facility placed in service after 1984, only 59⅚% of the amount (after reduction under section 291) is to be included as an item of tax preference. (See section 57(b)(1).) If you use the CLADR System, see Regulations section 1.57-1(d)(4)(i).

c Reserves for losses on bad debts of financial institutions subject to section 585 or 593.—Enter 59⅚% of the amount (after reduction under section 291) by which the deduction allowable for the tax year as a reasonable addition to a reserve for bad debts exceeds the amount that would have been allowable if the institution had kept its bad debt reserve for all tax years based on actual experience. See Rev. Rul. 79-171, 1979-1 C.B. 56 to determine the tax preference amount (before application of section 291) on the addition to a reserve for bad debts from foreign source income.

d Depletion.—Enter the amount by which the deduction for depletion allowable under section 611 for the tax year is more than the adjusted basis of the property at the end of the tax year (determined without the depletion deduction for the tax year). Include 71.6% of the amount (after reduction under section 291) allowable under section 613 for iron ore and coal (including lignite) over the adjusted basis of the property. Compute the depletion deduction separately for each property as defined in section 614.

e Capital gains.—This item of tax preference applies to a corporation or a personal holding company only if the alternative tax under section 1201 or other comparable section applies for the tax year.

If the alternative tax applies, determine the capital gains tax preference item by subtracting the alternative tax on taxable income (figured under section 1201 or other comparable section) from the tax on taxable income figured under section 11 or similar section. Divide the difference by .46.

If a corporation (other than an S corporation to which section 291 applies because of section 1363(b)(4)) disposes of section 1250 property after 1984, the amount treated as ordinary income under section 291(a) is 20% of the capital gain that would be additional ordinary income if the property were subject to recapture under section 1245. For dispositions after 1984, in determining the capital gains tax preference item, include in a corporation's net capital gain, 59⅚% of the remaining 80% of the capital gain that would be additional ordinary income under section 1245. (See section 57(b)(2).)

Corporations with income from timber should see sections 57(a)(9)(C) and 56(d) before completing lines 1e and 4a.

Foreign corporations should enter capital gains as a tax preference item only if the gains are effectively connected with the conduct of a trade or business in the United States.

f Other tax preferences—personal holding companies only.—

(1) Accelerated depreciation on leased property must be figured separately for each property. For leased nonrecovery property, enter the amount by which the depreciation or amortization taken on each leased section 1245 property is more than the deduction using the straight line method over the useful life of the property.

For the CLADR System, use the asset guideline period as the straight line useful life. Accelerated depreciation includes any excess depreciation permitted under the CLADR System due to variance in useful life under section 167(m)(1).

For leased personal recovery property, see section 57(a)(12) to determine the excess amount, if any, of the ACRS deduction that is an item of tax preference.

If the actual recovery period is longer than that listed for the property, the property will not be subject to the minimum tax.

(2) Mining exploration and development costs.—For each mine or other natural deposit (other than an oil or gas well), enter the amount equal to the excess of: the deduction allowable under section 616(a) or 617, over the amount that would have been allowable under section 58(i).

(3) Circulation and research and experimental expenditures.—Enter the amount equal to the excess of: the deduction allowable under section 173 or 174(a), over the amount that would have been allowable under section 58(i).

(4) Intangible drilling costs.—Enter the amount by which the intangible drilling and development costs of oil, gas, and geothermal wells (other than costs of drilling a nonproductive well) allowable as a deduction for the tax year are more than the total of: (a) the amount allowable if the cost had been capitalized and straight line recovery of intangibles had been used, plus (b) the net income for the tax year from oil, gas, and geothermal properties. Apply the intangible drilling costs separately to oil and gas properties that are not geothermal deposits, and properties that are geothermal deposits. This item applies to costs incurred for geothermal wells started on or after October 1, 1978. (See section 57(a)(11).)

Line 3.—Exclusion.—A controlled group of corporations (as defined in section 1563(a)) must divide the $10,000 exclusion among the members of the group in proportion to their regular tax deductions (section 56(c)) for the tax year.

Figure the exclusion for a return made for a period of less than 12 months using the rules in section 443(d).

Line 4a.—Regular tax deduction.—A corporation (including an S corporation and a personal holding company) should enter the total taxes imposed under Chapter 1 of the Code for the tax year (other than the accumulated earnings tax, personal holding company tax, and minimum tax), minus the total of the credits allowable under subparts A, B and D of part IV of the Code. See section 56(c).

Line 4b.—Tax carryover.—This is a special deduction for corporations (except an S corporation) with income from timber. See section 56(e)(1) to figure the carryover from past tax years.

If the carryover is from more than one earlier year, use the carryover from the earliest year first. See section 56(e)(2) to figure the maximum amount of the carryover that may be used. Attach a schedule showing how you figured the carryover.

Line 11.— Minimum tax deferred from earlier year(s).—Enter any deferred minimum tax from an earlier year related to a net operating loss carryover from that year that reduces taxable income in this year.

In figuring this amount, the part of the net operating loss carryover not related to the deferred minimum tax is used first to reduce taxable income. The earlier year's deferred minimum tax imposed as a tax liability for 1985 may not be more than the minimum tax deferred from the earlier year.

Form **4684**

Department of the Treasury
Internal Revenue Service

Casualties and Thefts

▶ **See separate instructions.**
▶ **To be filed with Form 1040, 1041, 1065, 1120, etc.**
Use a separate Form 4684 for each different casualty or theft.

OMB No. 1545-0177
1985
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Name(s) as shown on tax return

Identifying number

SECTION A.—Personal Use Property *(Casualties and thefts to property* **not** *used in a trade or business or for income-producing purposes.)*

1 Description of Properties (Show kind, location, and date of purchase for each)
Property A ....
Property B ....
Property C ....
Property D ....

	Properties (Use a separate column for each property lost or damaged from one casualty or theft.)			
	A	B	C	D
2 Cost or other basis of each property				
3 Insurance or other reimbursement you received or expect to receive for each property . . . . . . **Note:** *If line 2 is more than line 3, skip line 4*				
4 Gain from casualty or theft. If line 3 is more than line 2, enter difference here and skip lines 5 through 13				
5 Fair market value before casualty or theft . .				
6 Fair market value after casualty or theft. . . .				
7 Subtract line 6 from line 5				
8 Enter smaller of line 2 or line 7				
9 Subtract line 3 from line 8				

10 Casualty or theft loss. Add amounts from line 9 for all columns	
11 Enter the amount from line 10 or $100, whichever is smaller	
12 Subtract line 11 from line 10 . . . . **Caution:** *Use only one Form 4684 for lines 13 through 18.*	
13 Add the line 12 amounts from all Forms 4684, Section A	
14 Add the line 4 amounts from all Forms 4684, Section A	
15 If line 14 is more than line 13, enter difference here and on Schedule D, and do not complete the rest of form (see instructions). Otherwise, enter zero and complete lines 16 through 18. If line 14 is equal to line 13, do not complete the rest of form	
16 If line 13 is more than line 14, enter difference	
17 Enter 10% of adjusted gross income (Form 1040, line 33). Estates and trusts, see instructions	
18 Subtract line 17 from line 16. If zero or less, enter zero. Enter on Schedule A (Form 1040), line 19. Estates and trusts, see instructions	

For Paperwork Reduction Act Notice, see page 1 of separate instructions.

Form **4684** (1985)

Form 4684 (1985) Page 2

Name(s) as shown on tax return (Do not enter name and identifying number if shown on other side)	Identifying number

SECTION B.—Business and Income-Producing Property

(Casualties and thefts to property used in a trade or business or for income-producing purposes.)

Part I Casualty or Theft Gain or Loss (Use a separate Part I for each different casualty or theft.)

1 Description of Properties (Show kind, location, and date of purchase for each)

Property A

Property B

Property C

Property D

	Properties (Use a separate column for each property lost or damaged from one casualty or theft.)			
	A	B	C	D
2 Cost or adjusted basis of each property				
3 Insurance or other reimbursement you received or expect to receive for each property **Note:** *If line 2 is more than line 3, skip line 4*				
4 Gain from casualty or theft. If line 3 is more than line 2, enter difference here and on line 11 or 16, column (c). However, see instructions for line 15. Also, skip lines 5 through 10				
5 Fair market value before casualty or theft				
6 Fair market value after casualty or theft				
7 Subtract line 6 from line 5				
8 Enter smaller of line 2 or line 7 **Note:** *If the property was totally destroyed by a casualty, or lost from theft, enter on line 8, in each column, the amount from line 2.*				
9 Subtract line 3 from line 8				

10 Casualty or theft loss. Add amounts from line 9 for all columns. Enter here and on line 11 or 16	

Part II Summary of Gains and Losses (From separate Parts I)

(a) Identify casualty or theft	(b) Losses from casualties or thefts (i) Trade, business, rental or royalty property	(b) Losses from casualties or thefts (ii) Income-producing property	(c) Gains from casualties or thefts includible in income
Casualty or Theft of Property Held 6 Months or Less (one year or less if acquired before 6/23/84)			
11			
12 Totals. Add amounts on line 11 for each column			
13 Combine line 12, columns (b)(i) and (c). Enter the net gain or (loss) here and on Form 4797, Part II, line 12. (If Form 4797 is not otherwise required, see instructions.)			
14 Enter the amount from line 12, column (b)(ii) here and on Schedule A (Form 1040), line 19. Partnerships, S Corporations, Estates and Trusts, see instructions			
Casualty or Theft of Property Held More Than 6 Months (more than one year if acquired before 6/23/84)			
15 Casualty or theft gains from Form 4797, Part III, line 31			
16			
17 Total losses. Add amounts on line 16, columns (b)(i) and (b)(ii)			▨
18 Total gains. Add lines 15 and 16, column (c)			
19 Add amounts on line 17, columns (b)(i) and (b)(ii) *Partnerships, enter the amount from line 20 or line 21 on your Schedule K-1, line 7. S Corporations, enter the amount from line 20 on your Schedule K-1, line 6.*			
20 If the loss on line 19 is more than the gain on line 18:			
a Combine line 17, column (b)(i) and line 18. Enter the net gain or (loss) here and on Form 4797, Part II, line 12. (If Form 4797 is not otherwise required, see instructions.)			
b Enter the amount from line 17, column (b)(ii) here and on Schedule A (Form 1040), line 19. Estates and Trusts, see instructions			
21 If the loss on line 19 is equal to or smaller than the gain on line 18, combine these lines and enter here and on Form 4797, Part I, line 2			

1985

Department of the Treasury
Internal Revenue Service

Instructions for Form 4684

Casualties and Thefts

Paperwork Reduction Act Notice

We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Completing Form 4684

Page 1, Section A is for figuring casualty or theft gains and losses to property that is not used in a trade or business or for income-producing purposes.

Page 2, Section B is for figuring casualty or theft gains and losses to property that is used in a trade or business or for income-producing purposes.

If property is partly used in a trade or business, and partly used for personal purposes, such as a personal home with a rental unit, figure the personal part in Section A and the business part in Section B.

You may deduct losses arising from fire, storm, shipwreck, or other casualty, or theft (for example, larceny, embezzlement, and robbery).

If the amount you received in insurance or other compensation is more than the cost or other basis of property, you have a casualty or theft gain.

Publications.—See the following publications for more information:

Publication 547, Nonbusiness Disasters, Casualties, and Thefts;

Publication 551, Basis of Assets; and

Publication 584, Nonbusiness Disaster, Casualty, and Theft Loss Workbook.

When to Deduct a Loss

Deduct the part of your casualty or theft loss that will not be reimbursed. Deduct it in the tax year the casualty occurred or the theft was discovered. However, a disaster loss may be treated differently. See **Special Rule for Disaster Losses.**

If you are not sure whether part of your casualty or theft loss will be reimbursed, do not deduct that part until the tax year when you are reasonably certain that it will not be reimbursed.

If you are reimbursed for a loss you deducted in an earlier year, include the reimbursement in your income in the year you received it, but only to the extent the deduction was used to reduce your tax in an earlier year.

If property is destroyed or lost by casualty or theft and replaced with similar property, the gain may be partially or wholly nontaxable. Report on this form only the part of the gain that is taxable.

Special Rule for Disaster Losses

A disaster loss is a loss which occurred in an area determined by the President of the United States to warrant Federal disaster assistance.

If your residence was located in a disaster area, include any loss to a residence caused by the disaster if the state or local government where the residence was located, ordered it demolished or relocated because it was no longer safe for use as a residence, because of the disaster. The demolition or relocation must have been ordered within 120 days after the residence was determined to be in a disaster area.

In figuring the loss to a relocated residence, use its value before relocation as the fair market value after the casualty.

You may elect to deduct a disaster loss in the prior tax year as long as the loss would otherwise be allowed as a deduction in the year it occurred.

This election must be made by filing your return or amended return by the later of the following two dates:

(1) The due date for filing your original return (without extensions) for the tax year in which the disaster actually occurred.

(2) The due date for filing your original return (including any extension) for the tax year immediately before the tax year in which the disaster actually occurred.

You may revoke your election within 90 days after making it by returning to the Internal Revenue Service any refund or credit you received from the election. If you revoke your election before receiving a refund, you must repay the refund within 30 days after receiving it.

The return claiming the disaster loss should specify the date or dates of the disaster and the city, town, county, and state in which the damaged or destroyed property was located.

Note: *To determine the amount to deduct for a disaster loss, you must take into account any benefits you received from Federal or state programs to restore your property.*

Line-by-Line Instructions

Section A

Use a separate column for lines 1 through 9 to show each item lost or damaged from a single casualty or theft. If more than four items were lost or damaged, use additional sheets following the format of lines 1 through 9.

Use a separate Section A of Form 4684 through line 12 for each different casualty or theft gain or loss to property not used in a trade or business or for income-producing purposes.

Do not include any loss previously deducted on an estate tax return.

Line 2.—Cost or other basis usually means original cost plus improvements. Subtract any postponed gain from the sale of a previous principal residence. Special rules apply to property received as a gift or inheritance.

Lines 5, 6, and 7.—Fair market value is the price at which the property would change hands between a willing buyer and a willing seller. Replacement cost is not fair market value. The fair market value of property after a theft is zero. Fair market value is generally determined by competent appraisal. This appraisal must take into account the effects of any general market decline that may occur at the same time as the casualty or theft. You may be able to use the cost of repairs to the damaged property as evidence of loss of value if:

(a) The repairs are necessary to restore the property to the condition it was in immediately before the casualty;

(b) The amount spent for repairs is not excessive;

(c) The repairs only correct the damage; and

(d) The value of the property after the repairs is not, as a result of the repairs, more than the value of the property immediately before the casualty.

To figure a casualty loss to real estate not used in a trade, business, or for income-producing purposes, measure the decrease in value of the property as a whole. All improvements, such as buildings, trees, and shrubs, are considered together as one item. Figure the loss separately for other items. For example, figure the loss separately for each piece of furniture.

Line 15.—If there is a net gain on this line, combine your short-term gains with your short-term losses, and enter the net short-term gain or loss on your Schedule D. Combine your long-term gains with your long-term losses and enter the net long-term gain or loss on your Schedule D. In both cases write "Form 4684, Section A."

Line 17.—Estates and trusts, figure adjusted gross income in the same way as individuals, except that the costs of administration are allowed in figuring adjusted gross income.

Line 18.—Estates and trusts, enter the amount from this line on Form 1041, line 15.

Section B

Use a separate column of Part I, lines 1 through 9 to show each item lost or damaged from a single casualty or theft. If more than four items were lost or damaged, use additional sheets following the format of Part I, lines 1 through 9.

Use a separate Section B, Part I of Form 4684 for each different casualty or theft gain or loss to property that is used in a trade or business or for income-producing purposes. Use one Section B, Part II to combine all Sections B, Part I.

Line 2.—Cost or adjusted basis usually means original cost plus improvements, minus depreciation allowed or allowable (including any deduction taken under section 179), amortization, depletion, etc. Special rules apply to property received as a gift or inheritance.

Lines 5, 6, and 7.—Use the information similar to Section A, lines 5, 6, and 7.

However, if you have a casualty loss from trade, business, or income-producing property, figure your loss separately for each item that is stolen, damaged, or destroyed. For example, if you had a rental property that was damaged by a storm, figure the loss on the building separately from any trees or shrubs that were damaged.

Lines 11 and 16.—Enter on line 11 all gains and losses to property held 6 months or less (one year or less if acquired before 6/23/84). Enter on line 16 all gains and losses to property held more than 6 months (more than one year if acquired before 6/23/84). However, see the instructions for line 15. If part of one casualty or theft is short-term and part long-term, separate it according to how long the property was held.

Part II, Column (a).—Use a separate line for each different casualty or theft.

Part II, Column (b)(i).—Enter the part of line 10 from trade, business, rental, or royalty property.

Part II, Column (b)(ii).—Enter the part of line 10 from income-producing property.

Line 13.—If Form 4797 is not otherwise required, enter amount from this line on page 1 of your tax return, on the line identified as from Form 4797. Write "Form 4684."

Line 14.—Estates and trusts, enter on Form 1041, line 15. Partnerships, enter on Schedule K-1 (Form 1065), line 10. S corporations, enter on Schedule K-1 (Form 1120S), line 9. Write "Form 4684."

Line 15.—If you had a casualty or theft gain from certain trade, business, or income-producing property held more than 6 months (more than one year if acquired before 6/23/84), you may have to recapture part or all of the gain as ordinary income. See the instructions to Form 4797, Part III, for more information on the types of property subject to recapture. If recapture applies, complete Form 4797, Part III and this line instead of completing line 16 of Form 4684.

Line 20a.—Taxpayers, other than partnerships and S corporations, if Form 4797 is not otherwise required, enter amount from this line on page 1 of your tax return, on the line identified as from Form 4797. Write "Form 4684."

Line 20b.—Estates and trusts, enter the amount from this line on Form 1041, line 15.

Form **4797**

Department of the Treasury
Internal Revenue Service (X)

Gains and Losses From Sales or Exchanges of Assets Used in a Trade or Business and Involuntary Conversions

(And Computation of Recapture Amounts Under Sections 179 and 280F)

▶ **Attach to your tax return. See Separate Instructions**

OMB No. 1545-0184

1985

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Name(s) as shown on return

Identifying number

Part I **Sales or Exchanges of Property Used in a Trade or Business and Involuntary Conversions From Other Than Casualty and Theft—Property Held More Than 6 months (More Than 1 Year if Acquired Before 6/23/84)**

Notes:
- *Use Form 4684 to report involuntary conversions from casualty and theft.*
- *If you sold property that you claimed investment credit on, get Form 4255 to see if you are liable for recapture of the credit.*
- *File Form 6198 if you are reporting a loss and have amounts invested in the activity for which you are not at risk. (See instructions under "Special Rules.")*

(a) Description of property	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Gross sales price	(e) Depreciation allowed (or allowable) since acquisition	(f) Cost or other basis, plus improvements and expense of sale	(g) LOSS ((f) minus the sum of (d) and (e))	(h) GAIN ((d) plus (e) minus (f))
1							

	(g)	(h)
2 Gain, if any, from Form 4684, Section B, line 21	▨	
3 Section 1231 gain from installment sales from Form 6252, line 22 or 30	▨	
4 Gain, if any, on line 31 from other than casualty and theft	▨	
5 Add lines 1 through 4 in column (g) and column (h)	( )	

6 Combine columns (g) and (h) of line 5. Enter gain or (loss) here, and on the appropriate line as follows (Partnerships see the instructions for your line references.):

a If line 6 is zero or a loss, enter the amount on line 9 below and skip lines 7 and 8. (S corporations, enter the loss on Schedule K (Form 1120S), line 5.)

b If line 6 is a gain, see the instructions under Part I, **Nonrecaptured Net Section 1231 Losses**.

Note: *If you had no prior year section 1231 losses and line 6 is a gain, enter the gain from line 6 as a long-term capital gain on Schedule D.*

7 Nonrecaptured net section 1231 losses from prior years. (See instructions.)

8 Subtract line 7 from line 6. If zero or less, enter zero

a If line 8 is zero, enter the amount from line 6 on line 10 below.

b If line 8 is more than zero, enter the amount from line 7 on line 10 below, and enter the amount from line 8 as a long-term capital gain on Schedule D. See specific instructions for line 8b.

Part II **Ordinary Gains and Losses**

(a) Description of property	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Gross sales price	(e) Depreciation allowed (or allowable) since acquisition	(f) Cost or other basis, plus improvements and expense of sale	(g) LOSS ((f) minus the sum of (d) and (e))	(h) GAIN ((d) plus (e) minus (f))
9 Loss, if any, from line 6							▨
10 Gain, if any, from line 6 or amount from line 7 if applicable						▨	
11 Gain, if any, from line 30, Part III						▨	
12 Net gain or (loss) from Form 4684, Section B, lines 13 and 20a							
13 Ordinary gain from installment sales from Form 6252, line 21 or 29 (Applies only to sales before 6/7/84)						▨	
14 Recapture of section 179 deduction on property dispositions by partners and S corporation shareholders (see instructions)						▨	
15 Other ordinary gains and losses (include property held 6 months or less (1 year or less if acquired before 6/23/84)):							
16 Add lines 9 through 15 in column (g) and column (h)						( )	

17 Combine columns (g) and (h) of line 16. Enter gain or (loss) here, and on the appropriate line as follows:

a For all except individual returns: Enter the gain or (loss) from line 17, on the return being filed. See instructions for Part II for specific line references.

b For individual returns:

(1) If the loss on line 9 includes a loss from Form 4684, Section B, Part II, column (b)(ii), enter that part of the loss here and on line 19 of Schedule A (Form 1040). Identify as from "Form 4797, line 17b(1)"

(2) Redetermine the gain or (loss) on line 17, excluding the loss (if any) on line 17b(1). Enter here and on Form 1040, line 15.

For Paperwork Reduction Act Notice, see page 1 of separate instructions.

Part III Gain From Disposition of Property Under Sections 1245, 1250, 1252, 1254, 1255

Skip section 1252 on line 26 and in the instructions, if you did not dispose of farmland, or if a partnership files this form.

18 Description of sections 1245, 1250, 1252, 1254, and 1255 property:	Date acquired (mo., day, yr.)	Date sold (mo., day, yr.)
A		
B		
C		
D		

Relate lines 18A through 18D to these columns ▶ ▶ ▶ ▶	Property A	Property B	Property C	Property D
19 Gross sales price				
20 Cost or other basis plus expense of sale				
21 Depreciation (or depletion) allowed (or allowable)				
22 Adjusted basis, subtract line 21 from line 20				
23 Total gain, subtract line 22 from line 19				
24 **If section 1245 property:**				
a Depreciation allowed (or allowable) (see instructions)				
b Enter smaller of line 23 or 24a				
25 **If section 1250 property:** (If straight line depreciation used, enter zero on line 25g unless you are a corporation subject to section 291.)				
a Additional depreciation after 12/31/75				
b Applicable percentage times the smaller of line 23 or line 25a (see instructions)				
c Subtract line 25a from line 23. If line 23 is not more than line 25a, skip lines 25d and 25e				
d Additional depreciation after 12/31/69 and before 1/1/76				
e Applicable percentage times the smaller of line 25c or 25d (see instructions)				
f Section 291 amount (For corporations only.)				
g Add lines 25b, 25e, and 25f				
26 **If section 1252 property:**				
a Soil, water, and land clearing expenses				
b Line 26a times applicable percentage (see instructions)				
c Enter smaller of line 23 or 26b				
27 **If section 1254 property:**				
a Intangible drilling and development costs deducted after 12/31/75 (see instructions)				
b Enter smaller of line 23 or 27a				
28 **If section 1255 property:**				
a Applicable percentage of payments excluded from income under section 126 (see instructions)				
b Enter the smaller of line 23 or 28a				

Summary of Part III Gains (Complete property columns A through D through line 28b before going to line 29)

29 Total gains for all properties (add columns A through D, line 23)	
30 Add columns A through D, lines 24b, 25g, 26c, 27b, and 28b. Enter here and in Part II, line 11	
31 Subtract line 30 from line 29. Enter the portion from casualty and theft on Form 4684, Section B, line 15; enter the portion from other than casualty and theft on Form 4797, Part I, line 4	

Part IV Complete This Part Only If You Elect Out of the Installment Method And Report a Note or Other Obligation at Less Than Full Face Value

☐ Check here if you elect out of the installment method.

Enter the face amount of the note or other obligation ▶ ____________

Enter the percentage of valuation of the note or other obligation ▶ ____________

Part V Computation of Recapture Amounts Under Sections 179 and 280F When Business Use Drops to 50% or Less (See instructions for Part V.)

	(a) Section 179	(b) Section 280F
1 Section 179 expense deduction or section 280F recovery deductions		
2 Depreciation (see instructions)		
3 Recapture amount. (Subtract line 2 from line 1.)		

1985

Department of the Treasury
Internal Revenue Service

Instructions for Form 4797

Gains and Losses From Sales or Exchanges of Assets Used in a Trade or Business and Involuntary Conversions

(And Computation of Recapture Amounts Under Sections 179 and 280F)

(Section references are to the Internal Revenue Code unless otherwise specified.)

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Changes You Should Note

- Net section 1231 gains are treated as ordinary income to the extent that net section 1231 losses were deducted in 1982, 1983, and 1984.
- A new Part V has been added for the computation of recapture amounts under sections 179 and 280F when the business use of section 179 or 280F property drops to 50% or less.

Purpose of Form

Form 4797 is used to report the following:

- The sale or exchange of trade or business property, depreciable and amortizable property, oil, gas, and geothermal property, and section 126 property.
- The involuntary conversion (other than casualty or theft) of trade or business property and capital assets held in connection with a trade or business or a transaction entered into for profit.
- Disposition of other noncapital assets.
- Recapture of section 179 deductions.
- The computation of recapture amounts under sections 179 and 280F when the business use of section 179 or 280F property drops to 50% or less.

Examples of Items Reportable on This Form—Where to Make First Entry

Below are common examples of items reportable on this form. Columns (b) and (c) show the part of Form 4797 in which they should be entered. (a)	Held 6 months or less (1 year or less if acquired before 6/23/84) (b)	Held more than 6 months (more than 1 year if acquired before 6/23/84) (c)
1 Depreciable trade or business property:		
a Sold or exchanged at a gain	Part II	Part III (1245)
b Sold or exchanged at a loss	Part II	Part I
2 Depreciable residential rental property:		
a Sold or exchanged at a gain	Part II	Part III (1250)
b Sold or exchanged at a loss	Part II	Part I
3 Cattle and horses used in a trade or business for draft, breeding, dairy, or sport purposes:		
a Held for less than 24 months from acquisition date, sold at a gain or loss	Part II	Part II
b Held for 24 months or more from acquisition date:		
(1) Sold at a gain	Not applicable	Part III (1245)
(2) Sold at a loss	Not applicable	Part I
(3) Raised cattle and horses sold at a gain	Not applicable	Part I
4 Livestock other than cattle and horses used in a trade or business for draft, breeding, dairy, or sport purposes:		
a Held less than 12 months from acquisition date, sold at a gain or loss	Part II	Not applicable
b Held for 12 or more months from acquisition date:		
(1) Sold at a gain	Part II	Part III (1245)
(2) Sold at a loss	Part II	Part I
(3) Raised livestock sold at a gain	Part II	Part I
5 Farm land held less than 10 years upon which soil, water, and/or land clearing expenses were deducted:		
a Sold at a gain	Part II	Part III (1252)
b Sold at a loss	Part II	Part I
6 Disposition of cost-sharing payments described in section 126	Part III (1255)	Part III (1255)

Special Rules

Transfer of Appreciated Property to Political Organizations.—Treat a transfer of property to a political organization as a sale of property on the date of transfer. This rule applies only if the property's fair market value when transferred is more than your adjusted basis. Report the fair market value of the property at the time of the transfer as the sales price. Apply the ordinary income or capital gains provisions as if a sale actually occurred. (See section 84.)

Exchange of "Like-Kind" Property.—Report the exchange of "like-kind" property on Schedule D or on Form 4797, whichever applies. Report the exchange even though no gain or loss is recognized when you exchange business or investment property for property of "like-kind." For exceptions, see **Publication 544**, Sales and Other Dispositions of Assets.

If you use Form 4797 to report the exchange, identify on line 1, column (a), the property you disposed of. Enter the date you acquired it in column (b), and the date you exchanged it in column (c). Write "like-kind exchange" in column (d). Enter the depreciation allowed (or allowable) in column (e) and the cost or other basis in column (f). Enter zero in columns (g) and (h). (See section 1031.)

Involuntary Conversion of Property.—You may not have to pay tax on a gain from an involuntary or compulsory conversion of property. (See section 1033.)

At-Risk Rules.—If you are reporting a loss on an asset used in an activity to which the at-risk rules apply or any part of your interest in an activity for which you are not at risk, see the instructions for **Form 6198**, Computation of Deductible Loss From an Activity Described in Section 465(c).

Where to Report Transactions

In Part I, line 1, report sales or exchanges of trade or business property held more than 6 months (more than 1 year if acquired before 6/23/84) and involuntary conversions (condemnations), other than casualty and theft, of trade or business property and capital assets held in connection with a trade or business or a transaction entered into for profit held more than 6 months (more than 1 year if acquired before 6/23/84). If livestock is involved, see section 1231 for a longer holding period.

Note: *If you attach your own schedule to show details of gain or (loss), enter on lines 5 and 16, the total gain and the total (loss). Do not combine them.*

In Part II, line 15, report ordinary gains or losses on the sale, exchange, or involuntary conversion of noncapital assets (trade or business property).

Examples are:

- Land held 6 months or less that is not a capital asset (1 year or less if acquired before 6/23/84).
- Depreciable property held 6 months or less (1 year or less if acquired before 6/23/84).

In Part III, report a gain on the sale, exchange, or involuntary conversion of property subject to amortization or depreciation, some kinds of farm property, oil, gas, or geothermal property, or section 126 property.

Part IV is used if you are electing out of the installment method on a sale and reporting a note or other obligation at less than full face value.

Additional Information

See **Publication 544**, Sales and Other Dispositions of Assets, for more information.

Specific Instructions

Part I.—Sales or Exchanges of Property Used in a Trade or Business and Involuntary Conversions From Other Than Casualty and Theft (Section 1231).

Section 1231 transactions are:

- Sales or exchanges of real or depreciable property used in a trade or business and held for more than 6 months (more than 1 year if acquired before 6/23/84).
- Cutting of timber that the taxpayer elects to treat as a sale or exchange under section 631(a).
- Disposal of timber with a retained economic interest that is treated as a sale under section 631(b).
- Disposal of coal (including lignite) or iron ore mined in the United States with a retained economic interest that is treated as a sale under section 631(c).
- Sales or exchanges of cattle and horses, regardless of age, used in a trade or business by the taxpayer for draft, breeding, dairy or sporting purposes and held for 24 months or more from acquisition date.
- Sales or exchanges of livestock other than cattle and horses, regardless of age, used by the taxpayer for draft, breeding, dairy or sporting purposes and held for 12 months or more from acquisition date. **Note:** *Other livestock does not include poultry.*
- Sales or exchanges of unharvested crops. See section 1231(b)(4).
- Involuntary conversions, as a result of destruction in whole or in part, theft or seizure, or an exercise of the power of requisition or condemnation or the threat or imminence thereof, of property used in a trade or business or capital assets held in connection with a trade or business or a transaction entered into for profit and held for more than 6 months (more than 1 year if acquired before 6/23/84). But see section 1231(a)(4) if you have a casualty or theft loss(es).

Section 1231 transactions do not include inventory, property held primarily for sale to customers, or copyrights; literary, musical, or artistic compositions; letters or memorandums; U.S. Government publications (including the Congressional Record); or similar property.

Line 6.—Partnerships enter the amount from line 6 of Form 4797 on Schedule K-1 (Form 1065), line 6, and also on Schedule B (Form 1065), line 2.

S corporations enter the amount from line 6 of Form 4797 on line 5 of Schedule K (Form 1120S) but only if it is a loss. See the instructions that follow if line 6 is a gain.

For All Others.—If line 6 is a loss, enter that amount on line 9 of Form 4797 and skip lines 7 and 8. If line 6 is a gain, it is treated as ordinary income to the extent that it does not exceed nonrecaptured net section 1231 losses from tax years beginning after 1981. If you do **not** have net section 1231 losses from prior years, enter the gain from line 6 on Schedule D as a long-term capital gain. Read the following instructions to see if you have net section 1231 losses from prior years.

Nonrecaptured Net Section 1231 Losses—Line 7.—For tax years beginning after 1984, part or all of your section 1231 gains may have to be treated as ordinary income instead of receiving capital gain treatment. These net section 1231 gains are treated as ordinary income to the extent of the "nonrecaptured section 1231 losses." These nonrecaptured losses are net section 1231 losses deducted in tax years beginning after 1981 that have not yet been applied against any net section 1231 gain for the purpose of determining how much of the gain is ordinary income under these rules.

Enter your net section 1231 losses for years beginning after 12-31-81 on line 7. For example, if you had net section 1231 losses of $4,000 and $6,000 in 1982 and 1983 and a net section 1231 gain of $3,000 in 1984, you would enter $10,000 on line 7. You had a net section 1231 loss if your section 1231 losses exceeded your section 1231 gains. Section 1231 gains are included only to the extent taken into account in computing gross income, and section 1231 losses are included only to the extent taken into account in computing taxable income except that the limitation on capital losses does not apply. See sections 1231(c)(5) and 1231(a)(4). If any of the recognized losses were from involuntary conversions arising from fire, storm, shipwreck, or other casualty, or from theft and they exceed the recognized gains from the conversions, do not include them when figuring your nonrecaptured net section 1231 losses. See **Publication 544,** Sales and Other Dispositions of Assets for more information.

Line 8a.—If line 8 is zero, enter the amount from line 6 on line 10 of Form 4797. Your section 1231 gain is treated as ordinary income. For recordkeeping purposes this is also the amount of net section 1231 loss that you have recaptured.

Line 8b.—If line 8 is more than zero, enter the amount from line 7 on line 10 of Form 4797 and enter line 8 as a long-term capital gain on your Schedule D. For recordkeeping purposes, you have recaptured your 1982, 1983, and 1984 net section 1231 losses.

Schedule D.—Use the following lines when entering line 6 or 8 on Schedule D:

Schedule D (Form 1040), line 16.
Schedule D (Form 1120), line 5.
Schedule D (Form 1041), line 11.
Schedule D (Form 1120S), line 8.

Part II.—Ordinary Gains and Losses.

If a transaction is not reportable in Part I or Part III and the property is not a capital asset reportable on Schedule D, report the transaction in Part II.

If you receive ordinary income from a sale or other disposition of your interest in a partnership, see **Publication 541,** Tax Information on Partnerships, and Publication 544.

Report losses from the sale of small business stock on line 15 and gains as capital gains on Schedule D.

Line 10.—Enter section 1231 gain from line 6 or the amount from line 7 if applicable.

Line 11.—Enter any recapture of ordinary income from sections 1245, 1250, 1252, 1254, and 1255 property from line 30, Part III.

Line 12.—Enter net gain or loss from **Form 4684**, Section B, lines 13 and 20a.

Line 13.—Enter any ordinary gain from installment sales from **Form 6252**, line 21 or 29. This line applies only to sales before 6/7/84.

Line 14.—Enter on line 14 any recapture of section 179 expense included on Schedule K-1 (Form 1065), line 17, and on Schedule K-1 (Form 1120S), line 19 but only if it is due to a disposition. Only include it to the extent that you took a deduction for it in an earlier year. See instructions for Part V if you have section 179 recapture when the business use percentage of the property dropped to 50% or less.

Line 15.—Report other ordinary gains and losses, including property held 6 months or less (1 year or less if acquired before 6/23/84) and any losses from the sale of small business stock.

Line 16.—Add all losses from lines 9, 12, and 15 and enter in column (g). Add all gains from lines 10 through 15 and enter in column (h).

Line 17a.—If line 17a applies, enter the gain or loss on the applicable form, as follows:

- Form 1120, page 1, line 9.
- Form 1120-A, page 1, line 9.
- Form 1065, page 1, line 9.
- Form 1041, page 1, line 7.
- Form 1120S, page 1, line 7.
- Form 1120-F, page 3, Section II, line 9.
- Form 1120-IC-DISC, page 2, Schedule B, line 2i.
- Form 1120L, see instructions for Form 1120L.
- Form 990-C, page 1, line 9.
- Form 990-T, page 2, line 4b.

Part III.—Gain From Dispositions of Property Under Sections 1245, 1250, 1252, 1254, and 1255.

Part III is used to convert a possible long-term capital gain on a disposition of property into ordinary income. Fill out lines 18 through 23 to determine the gain on the disposition of the property. If you have more than four transactions to report, use additional forms.

Line 19.—The gross sales price includes money, the fair market value of other property received and any existing mortgage or other debt the buyer assumes or takes the property subject to. For casualty or theft property include insurance or other reimbursement you received or expect to receive for each item.

Line 20.—This line should not reflect the section 179 expense deduction or the section 48(q) basis adjustments. See line 21 instructions. If this is a disposition of a diesel-powered highway vehicle for which you claimed a credit on line 1 of **Form 4136**, Computation of Credit for Federal Tax on Gasoline and Special Fuels, reduce the cost of the vehicle by the amount of the credit claimed for that vehicle.

Line 21.—If you are not a partnership or an S corporation, use the following computation to determine the amount to enter on line 21:

- **Add** depreciation or depletion allowed or allowable, amortization or ACRS deductions if it is recovery property.
- **Add** the section 179 expense deducted.
- **Add** the section 48(q)(1) downward basis adjustment, if any.
- **Subtract** 50% of any investment tax credit recaptured if the basis of the property was reduced under section 48(q)(1) when placed in service. See section 48(q)(2).
- **Subtract** any section 179 or 280F recapture amount included in gross income in a prior year because the business use of the property dropped to 50% or less.

Partnerships should enter the depreciation or depletion allowed or allowable, amortization, or ACRS deductions on line 21. Enter the section 179 expense on Schedule K-1 (Form 1065), line 17. Partners adjust their basis of interest in the partnership to take into account adjustments to the basis of property under section 48(q).

S corporations should enter the depreciation or depletion allowed or allowable, amortization, or ACRS deductions on line 21. Enter the section 179 expense on Schedule K-1 (Form 1120S), line 19, but only if you are disposing of property acquired in tax years beginning after 1982. Shareholders adjust their stock in an S corporation for the adjustments to the basis of property under section 48(q).

Section 1245 Property

Section 1245 property is property that is depreciable (or amortizable under section 185) and is one of the following:

- Personal property.
- Livestock held for draft, breeding, dairy, or sport purposes.
- Elevators and escalators.
- Real property (other than property described under tangible real property below) subject to amortization or deductions under sections 169, 179, 185, 188, 190, 193, or 194.
- Tangible real property (except buildings and their structural components) if it is used in any of the following ways:

(1) As an integral part of certain business activities.
(2) As a research facility.
(3) For the bulk storage of fungible commodities (including commodities in a liquid or gaseous state) in connection with manufacturing, production, extraction, or furnishing transportation, communications, or certain other public utility services.

- A single purpose agricultural or horticultural structure under section 48(p).
- A storage facility (not including a building or its structural components) used in connection with the distribution of petroleum or any primary product of petroleum.

See section 1245(b) for exceptions and limitations involving:

- Gifts.
- Transfers at death.
- Certain tax-free transactions.
- Certain like-kind exchanges, involuntary conversions, etc.
- Sales or exchanges to accomplish FCC policies, and exchanges to comply with SEC orders.
- Property distributed by a partnership to a partner.
- Transfers to tax-exempt organizations where the property will be used in an unrelated business.
- Timber property.

See the following sections for special rules:

- Section 1245(a)(2)(D) for certain amortizable real property.
- Section 1245(a)(4) for player contracts and section 1056(c) regarding information required to be supplied by the transferor of a franchise of any sports enterprise if the sale or exchange involves the transfer of player contracts.
- Section 1245(a)(5) when only a portion of a building is section 1245 recovery property.
- Section 1245(a)(6) for qualified leased property.

Line-by-Line Instructions

Line 24a—If you are not a partnership or an S corporation, use the following computation to determine the amount to enter on line 24a:

- **Add** depreciation allowed or allowable, amortization, or ACRS deductions if it is recovery property.
- **Add** the section 179 expense deducted.
- **Add** the section 48(q)(1) downward basis adjustment, if any.
- **Subtract** 50% of the investment tax credit recaptured if the basis of the property was reduced under section 48(q)(1) when placed in service. See section 48(q)(2).
- **Subtract** any section 179 or 280F recapture amount included in gross income in a prior year because the business use of the property dropped to 50% or less.

Partnerships should enter the depreciation or depletion allowed or allowable, amortization, or ACRS deductions on line 24a. Enter the section 179 expense on Schedule K-1 (Form 1065), line 17. Partners adjust the basis of their interest in the partnership to take into account adjustments to the basis of property under section 48(q).

S corporations should enter the depreciation or depletion allowed or allowable, amortization, or ACRS deductions on line 24a. Enter the section 179 expense on Schedule K-1 (Form 1120S), line 19, but only if you are disposing of property acquired in tax years beginning after 1982. Shareholders adjust their stock in an S corporation for the adjustments to the basis of property under section 48(q).

You may have to include depreciation allowed or allowable on another asset if you use its adjusted basis in determining the adjusted basis of the property described on line 18. An example is property acquired by a trade-in. (See section 1.1245-2(c)(4) of the regulations.)

Section 1250 Property

Section 1250 property is depreciable real property (other than section 1245 property). ACRS deductions under section 168 are subject to recapture under section 1245 except for the following which are treated as section 1250 property:

- 15-year real property (18-year real property and low-income housing if placed in service after 3/15/84) which is residential rental property.
- 15-year real property (18-year real property and low-income housing if placed in service after 3/15/84) which is used mostly outside of the United States.
- 15-year real property (18-year real property and low-income housing if placed in service after 3/15/84) on which the alternate ACRS method of depreciation is taken under section 168(b)(3).
- 15-year real property (low-income property if placed in service after 3/15/84) which is described in clause (i), (ii), (iii), or (iv) of section 1250 (a)(1)(B). See instructions for line 25b.

See section 1250(d) for exceptions and limits involving:

- Gifts.
- Transfers at death.
- Some tax-free transactions.
- Some like-kind exchanges, involuntary conversions, etc.
- Sales or exchanges to accomplish FCC policies and exchanges to comply with SEC orders.
- Property distributed by a partnership to a partner.
- Disposition of a principal residence.
- Disposition of qualified low-income housing.
- Transfers of property to tax-exempt organizations where the property will be used in an unrelated business.
- Dispositions of property as a result of foreclosure proceedings.

Special Rules

- For additional depreciation attributable to rehabilitation expenditures, see section 1250(b)(4).
- If substantial improvements have been made, see section 1250(f).

Line-by-Line Instructions

Line 25a—Enter the additional depreciation for the period after 12/31/75. For section 1250 property held more than 1 year, additional depreciation is the excess of actual depreciation over depreciation figured using the straight line method. For this purpose, do not reduce the basis under section 48(q)(1) in figuring straight line depreciation. For section 1250 property held 1 year or less, all of the depreciation is additional depreciation.

Line 25b—Use 100% as the percentage for this line unless you have property described in section 1250(a)(1)(B).

Line 25c—Subtract line 25a from line 23. If line 23 is not more than line 25a, skip lines 25d and 25e.

Line 25d—Enter the additional depreciation after 12/31/69 and before 1/1/76. If the straight line depreciation is more than the additional depreciation after 12/31/69 and before 1/1/76, reduce line

25a by the amount that the straight line depreciation exceeds additional depreciation, but not below zero.

Line 25e—Use 100% as the percentage for this line unless you have property described in section 1250(a)(2)(B).

Line 25f—Corporations subject to section 291.—The amount to be treated as ordinary income under section 291 is 20% of the excess, if any, of the amount which would be treated as ordinary income if such property was section 1245 property or section 1245 recovery property, over the amount treated as ordinary income under section 1250. If you used the straight line method of depreciation, the ordinary income under section 291 is 20% of the amount figured under section 1245.

Section 1252 Property

Partnerships should skip this section

Partners should enter on the applicable lines of Part III amounts subject to section 1252 according to instructions they get from the partnership.

You may have ordinary income on the disposition of certain farm land held more than 1 year but less than 10 years.

Refer to section 1252 to determine if there is ordinary income on the disposition of some kinds of farm land for which deductions were allowed under sections 175 (soil and water conservation) and 182 (land clearing). If you dispose of such farm land within the 10th or later year after you acquire it, skip line 26.

Gain from disposition of certain farm land may be subject to ordinary income rules under section 1252 before being considered for purposes of section 1231 (Part I).

When filling out line 26b, enter 100% of line 26a on line 26b, except as follows:

- 80% if the farm land was disposed of within the 6th year after acquisition.
- 60% if disposed of within the 7th year.
- 40% if disposed of within the 8th year.
- 20% if disposed of within the 9th year.
- Zero if disposed of within the 10th or later year.

Section 1254 Property

If you dispose of oil, gas, or geothermal property at a gain, treat all or part of the gain as ordinary income. Include on line 21 of Form 4797, any depletion allowed (or allowable) in determining the adjusted basis of the interest in the property.

Note: *In the case of a corporation which is an integrated oil company, amounts amortized under section 291(b)(2)(A) should be treated as a deduction under section 263(c) when completing line 27a.*

Line 27a—Enter the total amount of expenses after 12/31/75, that:

- are allocable to the oil, gas, or geothermal property; and
- have been deducted as intangible drilling and development costs under section 263(c) by the taxpayer or any other person; and
- would have been reflected in the adjusted basis of the property if they had not been so deducted.

Reduce the intangible drilling and development costs determined above by the amount, if any, by which the deduction for depletion under section 611, with respect to the interest, would have increased if such costs incurred after 12/31/75, had been charged to a capital account instead of being deducted. If you dispose of a portion of an oil, gas, or geothermal property, or an undivided interest in it, see section 1254(a)(2).

Section 1255 Property

Line 19 should show the amount realized from the sale, exchange, or involuntary conversion of section 126 property. Enter the fair market value of section 126 property on line 19 in the case of any other disposition. On line 22, enter the adjusted basis of the section 126 property disposed of.

Line 28a—Applicable Percentage—Use 100% if the property is disposed of less than 10 years after receipt of payments excluded from income. Use 100% minus 10% for each year, or part of a year, that the property was held more than 10 years. Use zero if 20 years or more.

Part IV Installment Sales

If you sold property at a gain and will receive any payment in a tax year after the year of sale, use the installment method and **Form 6252**, Computation of Installment Sale Income. Also use Form 6252 if you received a payment this tax year from a sale made in an earlier year on the installment method.

If you want to **elect out** of the installment method, you must do the following on a timely filed return (including extensions):

(1) Report the full amount of the sale on Form 4797.

(2) If you received a note or other obligation and are reporting it at less than face value (including all contingent payment obligations), complete Part IV. If you have more than one note, enter the amounts separately in the spaces in Part IV.

Recapture Income in the Year of Sale.—Any recapture income under sections 1245 and 1250 (including the gain attributable to the expense election under section 179 and any section 291 recapture) is fully taxable as ordinary income in the year of sale even if no payments were received. Use the following instructions to figure the recapture amount:

(1) For the year of sale, complete Form 4797, Part III, and include any deduction you took under section 179 as depreciation on lines 21 and 24a. Include the gain from the installment sale on lines 29 and 30 but not on line 31 of Form 4797.

(2) Enter line 30 of Form 4797 on line 8 of Form 6252 and also on line 11 of Form 4797.

Part V

Computation of Recapture Amounts Under Sections 179 and 280F When Business Use Drops to 50% or Less

Section 179 Property.—If, in a prior year, you took a deduction under section 179 for property predominantly used in your trade or business other than listed property (as defined in section 280F(d)(4)), and the business use of the property was reduced to 50% or less during either of the two taxable years following the taxable year the property was placed in service, complete column (a), lines 1 through 3 in Part V to figure the amount to be recaptured.

Section 280F Property.—If you have listed property that you placed in service in a prior year and the business use percentage dropped to 50% or less this year, you must figure the amount to be recaptured. Complete column (b), lines 1 through 3 of Part V. See **Publication 463**, Travel, Entertainment, and Gift Expenses, for more information on recapture on passenger automobiles.

Note: *If you have more than one property subject to the recapture rules, use a separate schedule to figure the recapture amounts and attach the statement to your tax return.*

Line 1.—Section 179.—Enter the section 179 expense deducted when the property was placed in service.

Section 280F.—Enter the recovery deductions allowable on the property in prior years.

Any deduction allowable under section 179 on that property is treated as if that deduction was a recovery deduction under section 168.

Line 2.—Section 179.—Enter the ACRS deductions that would have been allowed on the section 179 amount from the time it was placed in service until the current year.

Section 280F.—Increase the basis of the property by any section 179 deduction and any section 48(q)(1) downward basis adjustment and decrease the basis by 50% of any investment credit recaptured under section 48(q)(2) and then figure the depreciation which would have been allowed in prior years using the straight line method over the earnings and profits life of the property. Get **Publication 534**, Depreciation, for more information on the earnings and profits life.

Line 3.—Subtract line 2 from line 1 and enter the recapture amount in "other income" on the proper form(s) or schedule(s). The list below shows which form or schedule should be used to report the recapture amounts.

Note: *If you filed Schedules C or F (Form 1040) and the property was used in both your trade or business and for the production of income, the portion attributable to your trade or business is subject to self-employment tax. Allocate the amount on line 3 before entering the recapture amount on the appropriate schedule.*

If you took the deduction on:	Report the recapture amount on:
Schedule A	Form 1040, line 22
Schedule C	Schedule C, line 4b
Schedule E (from Sch. K-1 (Form 1065) or from Schedule K-1 (Form 1120S))	Schedule E, Part II, column (f)
Schedule F	Schedule F, line 11
Form 1041 (section 280F)	Form 1041, line 8
Form 1065 (section 280F)	Form 1065, line 10
Form 1120 or Form 1120-A	Form 1120 or Form 1120-A, line 10
Form 1120S (section 280F)	Form 1120S, line 8
Form 2106	Form 1040, line 22
Form 4835	Form 4835, line 7

Be sure to increase the basis of the property by the recapture amount. Also, get **Form 4255**, Recapture of Investment Credit, for recapture rules.

Form **4835**

Department of the Treasury
Internal Revenue Service

Farm Rental Income and Expenses

(Crop and Livestock Shares Received by Nonparticipating Landowner (or Sub-lessor))

(Income not subject to self-employment tax)

▶ Attach to Form 1040.

OMB No. 1545-0187

1985

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Name(s) as shown on Form 1040

Social security number

If you filed Form 943, enter employer identification number here

Purpose of Form.—Use this form to report farm rental income based on crops or livestock produced by the tenant if you were the landowner (or sub-lessor), and you did not materially participate in the operation or management of the farm.

Under both the cash and the accrual methods of reporting, you must report livestock or crop share rentals received in the year in which you convert them into money or its equivalent.

Landowners (or sub-lessors) must not use this form to report cash rent received for pasture, or farmland, if the amount is based on a flat charge. Report this income directly on Schedule E (Form 1040).

Part I Gross Farm Rental Income—Based on Production

(Include amount converted to cash or the equivalent)

1	Income from production of livestock, produce, grains, and other crops			1	
2a	Total distributions received from cooperatives (from Form 1099-PATR)	2a			
b	Less: Nonincome items	2b			
3	Net distributions. Subtract line 2b from line 2a			3	
4	Agricultural program payments:				
a	Cash			4a	
b	Materials and services			4b	
5	Commodity credit loans under election (or forfeited)			5	
6	Crop insurance proceeds			6	
7	Other income, including Federal and state gasoline tax credit or refund (see instructions)			7	
8	Gross farm rents. Add lines 1, 3, and 4a through 7			8	

Part II Deductions—Farm Rental Property

(Exclude personal and living expenses)

9	Breeding fees		22	Mortgage interest paid to financial institutions (see Schedule F instructions)
10	Chemicals		23	Other interest
11	Conservation expenses		24	Pension and profit-sharing plans (see Schedule F instructions)
12	Depreciation and section 179 expense deduction (from Form 4562)		25	Rent of farm, pasture
13	Employee benefit programs other than line 24 (see Schedule F instructions)		26	Repairs, maintenance
14	Feed purchased		27	Seeds, plants purchased
15	Fertilizer and lime		28	Storage, warehousing
16	Freight, trucking		29	Supplies purchased
17	Gasoline, fuel, oil		30	Taxes
18	Insurance		31	Utilities
19a	Labor hired (see Schedule F instructions)		32	Veterinary fees, medicine
b	Jobs credit		33	Other expenses (specify):
c	Balance (subtract line 19b from line 19a)		a	
20	Land clearing (see Schedule F instructions)		b	
21	Machine hire		c	
			d	
			e	

34	**Total deductions.** Add lines 9 through 33e	34	
35	Net farm rental profit or (loss) (subtract line 34 from line 8). If a profit, enter here and on Schedule E (Form 1040), Part I, line 25. If a loss, you **MUST** go on to line 36 before you enter the loss here and on Schedule E (Form 1040)	35	

36 If you have a loss, you **MUST** answer this question: "Do you have amounts for which you are not at risk in this farm?" (See Schedule F instructions.) ☐ **Yes** ☐ **No**

If you checked "Yes," you **MUST** attach **Form 6198.** If you checked "No," enter the loss on Schedule E, Part I, line 25.

For Paperwork Reduction Act Notice, see back of Form 4835.

Form **4835** (1985)

General Information

Paperwork Reduction Act Notice

We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Note: *Tenants must not use this form to report farm income and expenses. (Individuals use Schedule F (Form 1040).)*

Line-by-Line Instructions

PART I.—Gross Farm Rental Income—Based on Production

Line 1

Report income you received from livestock, produce, grains, and other crops based on production. Include amounts converted to cash or the equivalent.

Line 2a

Enter your total distributions from cooperatives as shown on Form 1099-PATR. See Schedule F instructions.

Line 7

Use this line to report income other than that shown on lines 1 through 6. See Schedule F instructions.

PART II.—Deductions—Farm Rental Property

Lines 9 through 33

Report expenses listed. Do not include personal and living expenses.

If you report both farm rental income on line 8 of this form and cash rental income from farm property on Schedule E (Form 1040), you do not have to prorate the farm expenses that apply to this farm rental income. Instead, you may report the total farm rental expenses in Part II of this form.

Line 12

Please see **"Changes You Should Note"** in the Schedule F instructions for new rules on depreciation.

Use **Form 4562,** Depreciation and Amortization, to figure your depreciation deduction. If you are choosing to expense certain recovery property (section 179), also use Form 4562 to figure this deduction. For more information on depreciation and the election to expense certain recovery property, see Schedule F instructions.

Enter on line 12 of Form 4835 the amount of the deduction from Form 4562, Part I.

Line 33

Enter expenses not listed on another line. See Schedule F instructions.

Line 35

If you have a loss, you MUST go on to line 36 before entering your loss on line 35. If you fail to answer the question on line 36, processing of your tax return may be delayed. See Schedule F instructions.

Form **4868**
Department of the Treasury
Internal Revenue Service (X)

Application for Automatic Extension of Time To File U.S. Individual Income Tax Return

OMB No. 1545-0188
1985
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Please Type or Print

Your first name and initial (if joint return, also give spouse's name and initial)	Last name	**Your social security number**
Present home address (Number and street, including apartment number, or rural route)		**Spouse's social security no.**
City, town or post office, state, and ZIP code		

Note: *File this form with the Internal Revenue Service Center where you must file your income tax return and pay the amount shown on line 6 below.* ***This is not an extension of time for payment of tax.*** *You will be charged a penalty for late payment of tax and late filing unless you show reasonable cause for not paying or filing on time (see instructions).*

If you expect to file a gift tax return (Form 709 or Form 709-A) for 1985, generally due by April 15, 1986, check this box . . . . ▶ ☐

I request an automatic 4-month extension of time to August 15, 1986, to file Form 1040A or Form 1040 for the calendar year 1985 (or if a fiscal year Form 1040 to ...., 19 ....., for the tax year ending ...., 19 .....).

1	Total income tax liability for 1985. (You may estimate this amount.) . . . . **Note:** *You **must** enter an amount on line 1. If you do not expect to owe tax, enter zero (0).*			1	
2	Federal income tax withheld	2		▨	
3	1985 estimated tax payments (include 1984 overpayment allowed as a credit) .	3		▨	
4	Other payments and credits you expect to show on Form 1040A or Form 1040 .	4		▨	
5	Add lines 2, 3, and 4			5	
6	Income tax balance due (subtract line 5 from line 1). Pay in full with this form. (If line 5 is more than line 1, enter zero (0).) . . . . ▶			6	
7	Total gift tax you expect to owe for 1985 (see instructions) . . . . ▶			7	

If you send only one check for both income and gift tax due, attach a statement showing how much of the check applies to each type of tax.

Signature and Verification

Under penalties of perjury, I declare that I have examined this form, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete; and, if prepared by someone other than the taxpayer, that I am authorized to prepare this form.

Signature of taxpayer ▶ ______________________________ Date ▶ ____________________

Signature of spouse ▶ ______________________________ Date ▶ ____________________
(If filing jointly, BOTH must sign even if only one had income)

Signature of preparer other than taxpayer ▶ ______________________________ Date ▶ ____________________

General Instructions

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Purpose of Form.—Use Form 4868 to ask for an automatic 4-month extension of time to file **Form 1040A** or **Form 1040**. The 4-month extension period includes the automatic 2-month extension granted to U.S. citizens and resident aliens who are living or traveling outside the United States and Puerto Rico on the due date for filing their returns. Do not file this form if:

- You want the IRS to figure your tax, or
- You are under a court order to file your return by the regular due date.

The extension will be granted if you complete this form properly, file it on time, **and pay with it the amount of tax shown on line 6.** We will notify you only if your request for an extension is denied.

Note: *Any extension of time granted for filing your 1985* ***calendar*** *year income tax return also extends the time for filing a gift tax return for 1985.*

Filing Form 2688.—Except in cases of undue hardship, we will not accept Form 2688, Application for Extension of Time To File U.S. Individual Income Tax Return, until you have first used Form 4868.

If you have filed Form 4868 and still need more time, use Form 2688 or write a letter of explanation. You must show reasonable cause. Send Form 2688 or the letter to the Internal Revenue Service Center where you file your Form 1040A or Form 1040. (See **Where to File**.)

If you need a further extension, ask for it early so that, if denied, you can still file your return on time.

When to File.—File Form 4868 by April 15, 1986. If you are filing a fiscal year Form 1040, file Form 4868 by the regular due date of your return. If you were granted the automatic 2-month extension explained above, file this form by the end of the 2-month period (June 16, 1986, for a 1985 calendar year return).

You may file Form 1040A or Form 1040 any time before the 4-month period ends.

Where to File.—Mail this form to the **Internal Revenue Service Center** for the place where you live.

If you are located in: ▼	Use this address: ▼
New Jersey, New York City and counties of Nassau, Rockland, Suffolk, and Westchester	Holtsville, NY 00501
New York (all other counties), Connecticut, Maine, Massachusetts, Minnesota, New Hampshire, Rhode Island, Vermont	Andover, MA 05501
Delaware, District of Columbia, Maryland, Pennsylvania	Philadelphia, PA 19255
Alabama, Florida, Georgia, Mississippi, South Carolina	Atlanta, GA 31101
Kentucky, Michigan, Ohio, West Virginia	Cincinnati, OH 45999
Kansas, Louisiana, New Mexico, Oklahoma, Texas	Austin, TX 73301
Alaska, Arizona, California (counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo, and Yuba), Colorado, Idaho, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	Ogden, UT 84201
California (all other counties), Hawaii	Fresno, CA 93888
Illinois, Iowa, Missouri, Wisconsin	Kansas City, MO 64999
Arkansas, Indiana, North Carolina, Tennessee, Virginia	Memphis, TN 37501
American Samoa	Philadelphia, PA 19255
Guam	Commissioner of Revenue and Taxation Agana, GU 96910
Puerto Rico (or if excluding income under section 933) Virgin Islands: Nonpermanent residents	Philadelphia, PA 19255
Virgin Islands: Permanent residents	V.I. Bureau of Internal Revenue P.O. Box 3186 St. Thomas, VI 00801
A.P.O. or F.P.O. address of:	Miami—Atlanta, GA 31101 New York—Holtsville, NY 00501 San Francisco—Fresno, CA 93888 Seattle—Ogden, UT 84201
Foreign country: U.S. citizens and those excluding income under section 911 or 931, or claiming the housing deduction under section 911	Philadelphia, PA 19255

Penalties.—You may be charged one or both of the following penalties.

Late payment penalty.—Form 4868 does not extend the time to pay income or gift tax. A penalty of 1/2 of 1% of any tax (other than estimated tax) not paid by the regular due date is charged for each month, or part of a month, that the tax remains unpaid. The penalty will not be charged if you can show reasonable cause for not paying on time. The penalty is limited to 25%.

You are considered to have reasonable cause for the period covered by this automatic extension if the amount you owe on Form 1040A, line 27, or Form 1040, line 68 (minus any estimated tax penalty):

- Is not more than 10% of the amount shown as total tax on Form 1040A, line 23, or Form 1040, line 56, and
- Is paid with Form 1040A or Form 1040.

If both of the above conditions are not met, the late payment penalty will apply, unless you show reasonable cause.

If you have reasonable cause, attach a statement to your return giving your reason.

If you cannot show reasonable cause, figure the penalty on the total tax due on Form 1040A, line 27, or Form 1040, line 68, from the regular due date of your return to the date of payment.

Late filing penalty.—A penalty is charged if your return is filed after the due date (including extensions), unless you can show reasonable cause for filing late. The penalty is 5% of the tax not paid by the regular due date for each month, or part of a month, that your return is late, but not more than 25%. If your return is more than 60 days late, the penalty will not be less than $100 or the balance of tax due on your return, whichever is smaller. If you file your return late, attach a full explanation with the return.

Interest.—Interest is charged from the regular due date of the return until the tax is paid. It will be charged even if:

- You have been granted an extension, or
- You show reasonable cause for not paying the tax on time.

Line-by-Line Instructions

At the top of this form, fill in the spaces for your name, address, social security number, and spouse's social security number if you are filing a joint return. If you expect to file a gift tax return **(Form 709** or **Form 709-A)** for 1985, generally due by April 15, 1986, check the box on the front of this form. Below that, if you are on a fiscal year, fill in the date on which your 4-month extension will end and the date your tax year ends.

Note: *If you were granted the automatic 2-month extension, because you were a U.S. citizen or resident alien outside the country and are filing Form 4868 to ask for an additional 2-month extension, write "Taxpayer Abroad" across the top of this form.*

Line 1.—Enter the total amount of income tax you expect to owe for 1985 (the amount you expect to enter on Form 1040A, line 23, or Form 1040, line 56, when you file your return). Be sure to estimate the amount correctly. If you underestimate this amount, you may be charged a penalty as explained earlier under Penalties.

Line 6.—Form 4868 does not extend the time to pay your income tax. Therefore, you must pay the amount of income tax shown on line 6 in full with this form.

Line 7.—If you plan to use the extension of time to file your gift tax return, enter the amount of gift tax you expect to owe for 1985. To avoid the late payment penalty, you must pay this amount in full with Form 4868 unless you specifically request an extension to pay the gift tax. To request an extension to pay the gift tax only, you must attach a statement to this form that paying the gift tax on the due date would cause you undue hardship (not merely inconvenience).

If your spouse is filing a separate Form 4868, enter on your form only the total gift tax you expect to owe.

If you are filing Form 4868 with your spouse, enter on line 7 the total gift tax the two of you expect to owe. However, if each of you expects to file a gift tax return, also show in the space to the right of line 7 how much gift tax each expects to owe for 1985.

Signature by Taxpayers.—Generally, both spouses must sign this form for the extension to be valid if a joint return is to be filed. But if one spouse cannot sign because of illness, absence, or other good cause, the other spouse may sign for both, provided a proper explanation is attached explaining why that spouse cannot sign this form.

Signature by Other than Taxpayer.—Persons who may sign for the taxpayers include attorneys or certified public accountants qualified to practice before the IRS, enrolled agents, or any person holding a power of attorney. If the taxpayer cannot sign because of illness, absence, or other good cause, a person in close personal or business relationship to the taxpayer may sign provided a proper explanation is attached as to why the taxpayer cannot sign this form. It is not necessary that such person hold a power of attorney.

How to Claim Credit for Payment Made With This Form.—If you file Form 1040A, include the amount paid (line 6) with this form in the total on Form 1040A, line 25. Also write "Form 4868" and the amount paid in the space to the left of line 25. If you file Form 1040, enter the amount paid (line 6) with this form on Form 1040, line 60.

If you and your spouse file separate Forms 4868 for 1985, but file a joint income tax return for the year, enter on the appropriate line of your Form 1040A or Form 1040, the total of the amounts paid on the separate Forms 4868. Also enter the social security numbers of both spouses in the spaces on your return.

If you and your spouse file a joint Form 4868 for 1985, but file separate income tax returns for the year, you may claim the total tax payment (line 6) on your separate return or on your spouse's separate return or you may divide it in any agreed amounts. Be sure to enter the social security numbers of both spouses on the separate returns.

Form **4952**

Department of the Treasury
Internal Revenue Service

Investment Interest Expense Deduction

▶ **See instructions on back.**

▶ **Attach to Form 1040 (or Form 1041).**

OMB No. 1545-0191

1985

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Name(s) as shown on return

Identifying number

Kind of return . . . . ▶ ☐ Individual ☐ Estate ☐ Trust

Part I Interest on Investment Debts Incurred Before December 17, 1969

Note: *Use Part I only if you have investment interest expense on debts incurred before December 17, 1969, in addition to debts incurred on or after that date.*

1	Interest expense on investment debts incurred before December 17, 1969	1	
2	Total net investment income	2	
3	Net investment income allocable to the period before December 17, 1969: $\dfrac{\text{Line 1}}{\text{Line 1} + \text{Line 7} + \text{Line 15} + \text{Line 27}} \times \text{Line 2}$	3	
4	Subtract line 3 from line 2—Enter here and on line 10(a)	4	

Part II Interest on Investment Debts Incurred After September 10, 1975

5	Interest expense on investment debts incurred after September 10, 1975			5	
6	Carryover—Enter amount from 1984 Form 4952, line 14 (see instructions)			6	
7	Total investment interest expense (add lines 5 and 6)			7	
8	**(a)** Individuals enter $10,000 ($5,000 if married filing separately)	8a			
	(b) Additional limitation	8b			
9	Estates enter $10,000; trusts enter zero	9			
10	**(a)** Total net investment income (amount from line 4 if Part I is used) 10a				
	(b) $\dfrac{\text{Line 7}}{\text{Line 7} + \text{Line 15} + \text{Line 27}} \times \text{Line 10(a)}$	10b			
11	Excess expenses from "net lease property"	11			
12	Limitation on deduction (add lines 8(a), (b), 9, 10(b) and 11)			12	
13	Allowable investment interest deduction—Enter the smaller of line 7 or line 12 (see instructions)			13	
14	Disallowed investment interest to be carried over to 1986 (subtract line 13 from line 7)			14	

Part III Interest on Investment Debts Incurred Before September 11, 1975, and After December 16, 1969

15	Interest expense on investment debts incurred before September 11, 1975, and after December 16, 1969			15	
16	Individuals enter $25,000 ($12,500 if married filing separately)	16			
17	Estates enter $25,000; trusts enter zero	17			
18	Net investment income (subtract line 10(b) from line 10(a))	18			
19	Excess expenses from "net lease property"	19			
20	Net long-term capital gain minus net short-term capital loss from sale or exchange of property held for investment	20			
	Note: *To adjust this gain on Schedule D or Form 4798, see Schedule D (Form 1040) instructions.*				
21	Tentative limitation (add lines 16 through 20)			21	
22	Subtract line 21 from line 15. If line 21 is more than line 15, enter zero			22	
23	Additional deduction (50% of line 22)			23	
24	Limitation on deduction (add lines 21 and 23)			24	
25	Allowable investment interest deduction—Enter the smaller of line 15 or line 24 (see instructions)			25	
26	Disallowed investment interest to be carried over to 1986 (subtract line 25 from line 15)			26	

Part IV Investment Interest Expense Carryover From Earlier Years—Incurred Before September 11, 1975

27	Carryover—Enter the sum of the amounts from your 1984 Form 4952, lines 26 and 35 (see instructions)			27	
28	Enter amount reportable on line 18 plus $25,000*	28			
29	Enter the larger of line 15 or $25,000*	29			
30	Subtract line 29 from line 28. If line 29 is larger than line 28, enter zero	30			
31	Enter 50% of line 30			31	
32	Allowable investment interest deduction (enter the smaller of line 27 or line 31)			32	
33	Interest carryover from earlier years disallowed in 1985 (subtract line 32 from line 27)			33	
34	Enter the 60% capital gain deduction from your 1985 Schedule D or 1985 Form 4798			34	
35	Interest carryover to 1986 (subtract line 34 from line 33)			35	

*$12,500, if married filing separately; zero, if a trust.

For Paperwork Reduction Act Notice, see back of form.

General Instructions

(Section references are to the Internal Revenue Code)

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Purpose of Form.—If you paid or accrued interest during 1985 on debts you incurred to buy or hold investment property, the amount of interest you can deduct may be limited. The term "interest" for this purpose includes any allowable deduction in connection with personal property used in a short sale. Property held for investment includes all investments held for producing taxable income or gain. This includes rental property that is net lease property. It does not include property used in a trade or business.

Use Form 4952 to figure your total deduction for investment interest expense if a, b, or d apply.

a. Fill in Part II if in 1985, you paid or accrued more than $10,000 in interest ($5,000 if married filing separately; zero if a trust) on investment debts incurred after September 10, 1975.

b. Fill in Part III if in 1985, you paid or accrued more than $25,000 in interest ($12,500 if married filing separately; zero if a trust) on investment debts incurred before September 11, 1975, and after December 16, 1969.

c. Fill in Part I if in 1985, a, b, or d applies, and you also paid or accrued interest on investment debts incurred before December 17, 1969.

d. Fill in Part IV if in 1984, you had interest from Parts III or IV not allowed due to the limitations.

Source of Amounts to Include.—

a. Your own investment interest expense and other items used in the computation.

b. Partnership and S Corporation.—Your pro-rata share of investment interest expense and other items used in the computation, as reported on the Schedule K-1 (Form 1065 or 1120S) that you get from the partnership or corporation.

c. Estates and Trusts.—when there is distributable net income, include your share of: (1) the net investment income, and (2) the excess of net long-term capital gain over net short-term capital loss from the sale or exchange of investment property.

Net lease property.—Rental income is to be considered trade or business income unless it is from net lease property. Then it is treated as investment income. Rental property is net lease property if:

(a) You (the lessor) either are guaranteed a specific return of income or are guaranteed in whole or in part against loss of income; or

(b) Your 1985 deductions for the property that are allowable **only** because of section 162 (except rents and reimbursed amounts) are less than 15% of the rental income produced by the property. For this 15% test, you may elect to: (1) treat all leased portions of a parcel of real property as subject to a single lease, and (2) exempt real property that has been in use for more than 5 years.

In figuring your section 162 deduction for purposes of (b), do not include expenses such as depreciation, taxes, interest, etc.

Line-by-Line Instructions

Identifying Number.—Individuals should enter their social security number. Estates and trusts should enter their employer identification number.

Preparing Form 4952.—First complete lines 1, 5 through 7, 15, and 27. Then complete the form in numerical sequence starting with line 2, if applicable.

Line 1.—Enter your total investment interest expense from all sources, on debts created before December 17, 1969, from a specific item of property for a specified term. Also include debts in existence after December 16, 1969, if a binding contract was in effect on that date. Enter only the interest you paid or accrued in 1985, depending on your method of accounting.

Lines 2, 10, and 18.—Enter your net investment income from all sources required to be reported on your Form 1040 or 1041 for 1985. This cannot be less than zero.

If you have an entry on line 1 and had net investment income in 1985, complete lines 2, 3, and 4. Then enter the figure from line 4 on line 10(a). If you do not have an entry on line 1, enter your total net investment income on line 10(a).

Allocate your net investment income for all periods before December 17, 1969, before September 11, 1975 and after December 16, 1969, and after September 10, 1975. The formulas on lines 3 and 10(b) are for this purpose.

Net investment income is the amount by which investment income exceeds investment expenses. Investment income and expenses do not include any amounts connected with a trade or business.

Investment income includes the following that are includible in gross income: Interest, dividends, rents from net lease property, royalties, net short-term capital gains from investment property, and amounts recaptured as ordinary income from the sale or exchange of investment property subject to sections 1245, 1250 and 1254.

Investment expenses are those deductions directly connected with the production of investment income. Interest is not included in investment expenses for this purpose. Depreciation may be limited to the amount figured using the straight line method. Depletion may be limited to an amount based on cost.

Line 5.—Enter your total investment interest expense from all sources, for obligations incurred after September 10, 1975. Do not include those obligations for which a binding contract was in effect on September 11, 1975. Enter only the interest you paid or accrued in 1985, depending on your method of accounting.

Lines 6 and 27.—Enter interest disallowed in 1984 because of the limitations, but do not include any amount which would have reduced taxable income below zero and would not have increased a net operating loss available for carryback or carryover. The carryover retains its same character. For example, treat interest on investment debts incurred after September 10, 1975 when carried over as if it were incurred after that date and subject to the same limitations.

Line 8(a).—Individuals enter $10,000 ($5,000 if married filing separately).

Line 8(b).—If you incurred investment interest in connection with acquiring stock in a corporation or partnership interest and you, your spouse and children own 50% or more of the stock or the capital interest in that enterprise, enter the smaller of $15,000 ($7,500 if married filing separately) or the amount of this interest.

Lines 11 and 19.—Excess expenses from net lease property is the amount by which the expenses allowable under sections 162, 163 (without any reduction for the limitations of section 163(d)), 164(a)(1) or (2), and 212 attributable to property subject to a net lease, are more than the income produced by this property.

Lines 13 and 25.—This is the allowable investment interest expense. Deduct it as an itemized deduction on Schedule A (Form 1040) unless part or all of it is from net lease property. That part should be deducted on Schedule E (Form 1040), Part I.

Deduct the pro-rata share of allowable investment interest from a partnership or S corporation on Schedule A (Form 1040), unless the partnership or corporation notifies you that all or part of it relates to net lease property. That part should be deducted on Schedule E (Form 1040), Part II.

Estates and trusts should deduct the allowable part of investment interest on Form 1041, line 10.

Figure the allowable parts for each of the above by the following formula:

$$\frac{\text{Part of investment interest}}{\text{Total investment interest}} \times \text{Total allowable investment interest}$$

All interest on investment debts incurred before December 17, 1969 is allowed without limitation.

Line 15.—Enter your total investment interest expense from all sources, from a specific item of property for a specified term, and from debts incurred before September 11, 1975, and after December 16, 1969. Also include obligations incurred after September 10, 1975, but subject to a written contract or commitment in effect on September 11, 1975. Enter only the interest you paid or accrued in 1985, depending on your method of accounting.

Line 32.—This is the investment interest from earlier years that is allowable this year. Allocate this amount according to the formula in the instructions for lines 13 and 25. Use the percentages obtained in years in which the carryovers were created.

Form **4970**

Department of the Treasury
Internal Revenue Service

Tax on Accumulation Distribution of Trusts

▶ **Attach to beneficiary's tax return.**
▶ **See instructions on back.**

OMB No. 1545-0192
1985
73

Name(s) as shown on return

Social security number

Name and address of trust

Employer identifying number

Type of trust ☐ Domestic ☐ Foreign

Beneficiary's date of birth

Enter number of accumulation distributions received this year . . . . ▶

Part I Average Income and Determination of Computation Years

1 Part of current distribution that is considered distributed in earlier tax years. (From Schedule J (Form 1041), line 37, column a.) . . . .
2 Distributions of income accumulated before you were born or reached age 21. . . . .
3 Subtract line 2 from line 1 . . . .
4 Taxes imposed on the trust on amounts from line 3. (From Schedule J (Form 1041), line 37, column b.) . . . .
5 Total (add lines 3 and 4) . . . .
6 Tax-exempt interest included on line 5. (From Schedule J (Form 1041), line 37, column c.) . . . .
7 Taxable part of line 5 (subtract line 6 from line 5) . . . .
8 Number of trust's earlier tax years in which amounts on line 7 are considered distributed . . . .
9 Average amount considered distributed (divide line 3 by line 8) . . . .
10 Enter 25% of line 9 . . . .
11 Number of years on line 8 in which amount considered distributed is not less than the amount on line 10 . . . .
12 Average amount for recomputing tax (divide line 7 by line 11). Enter here and in each column on line 15 . . . .

	1984	1983	1982	1981	1980
13 Enter your taxable income before this distribution for the 5 immediately prior tax years					

Part II Computation of Tax Attributable to the Accumulation Distribution

	(a) 19....	(b) 19....	(c) 19....
14 Enter the amounts from line 13, eliminating the highest and lowest taxable income years			
15 Enter amount from line 12 in each column			
16 Recomputed taxable income (add lines 14 and 15)			
17 Income tax on amounts on line 16			
18 Income tax before credits on line 14 income			
19 Additional tax before credits (subtract line 18 from line 17)			
20 Tax credit adjustment			
21 Subtract line 20 from line 19			
22 Minimum and alternative minimum tax adjustments			
23 Combine lines 21 and 22			

24 Add columns (a), (b), and (c), line 23 . . . .
25 Divide the amount on line 24 by three . . . .
26 Multiply the amount on line 25 by the number of years on line 11 . . . .
27 Enter the amount from line 4 . . . .
28 Partial tax (subtract line 27 from line 26.) (If line 27 is more than line 26, enter zero) . . . .
29 Interest charge on accumulation distribution from foreign trusts . . . .
30 Add lines 28 and 29 . . . .

For Paperwork Reduction Act Notice, see back of form.

Instructions

(Section references are to the Internal Revenue Code.)

Paperwork Reduction Act Notice.— We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Purpose of Form.—Use this form to figure the partial tax under section 667 on an accumulation distribution made by a trust in the current tax year. See section 665(b) for the definition of an accumulation distribution. If the distribution is from a foreign trust, see sections 667(d) and 904(f)(4).

Under the throwback rules, accumulation distributions are treated as if they had been distributed to you in the years when the income was accumulated by the trust. See sections 665 and 666 for more information on the throwback rules for domestic and foreign trusts.

These throwback rules apply even if you would not have been entitled to receive a distribution in the earlier tax year if the distribution had actually been made then.

Figure the partial tax to determine the tax attributable to the distribution by averaging the distribution over the number of years in which the trust earned income.

If you received accumulation distributions from more than one trust during the current tax year, prepare a separate Form 4970 for each accumulation distribution you received. You can arrange the distributions in any order you want them considered to have been made.

Line-by-Line Instructions

Line 1.—Enter the amount distributed in the current year that represents the undistributed net income of a domestic or foreign trust considered to have been distributed in earlier tax years.

Line 2.—Enter the part of the amounts in line 1 that represents undistributed net income of a domestic trust considered to have been distributed before you were born or reached age 21. However, if the multiple trust rule applies, see the instructions for line 4.

Line 4.—Except as noted under **Special Rule for Multiple Trusts**, enter on line 4 the Federal income taxes (not including any minimum or alternative minimum tax) charged for any earlier tax year on the trust that are attributable (under sections 666(b) and (c)) to the net income reported on line 3. If the trust is a foreign trust, see section 665(d).

Special Rule for Multiple Trusts.—If you received accumulation distributions from two or more other trusts that were considered to have been made in any of the earlier tax years from which the current accumulation distribution is considered to have been made, do not include on line 4 the taxes attributable to the current accumulation distribution considered to have been distributed in the same earlier tax year(s).

For this special rule only count as trusts those trusts for which the sum of this accumulation distribution and any earlier accumulation distributions from the trust, which are considered under section 666(a) to have been distributed in the same earlier tax year, is $1,000 or more.

Line 8.—Enter the number of the trust's earlier tax years in which the accumulation distribution is considered to have been made. You must know the specific earlier tax years of the trust in which the amounts are considered to have been made to complete line 11.

Line 13.—Enter your taxable incomes for years 1980–1984, even if less than five years of the trust had accumulated income after the beneficiary became 21. Use the taxable income as reported, amended by you, or as changed by IRS. Include in the taxable income, amounts considered distributed as a result of prior accumulation distributions whether from the same or another trust, and whether made in an earlier year or the current year.

If you are not an individual, and your taxable income as adjusted is less than zero, enter zero.

If you are an individual, and your taxable income as adjusted for 1980–1984 is less than your zero bracket amount, enter your zero bracket amount.

Line 17.—Figure the income tax (not including any minimum tax or alternative minimum tax) on the income on line 16 using the tax rates in effect for your particular earlier tax year shown in each of the three columns. You may use the Alternative Tax, Tax Rate Schedules, etc., as applicable. You can get the Tax Rate Schedules and earlier year forms from many IRS offices. If you are a nonresident alien or a foreign corporation, see section 667(d) and (e).

Line 18.—Enter your income tax (not including any minimum tax or alternative minimum tax) as originally reported, corrected, or amended, before reduction for any credits for your particular earlier year shown in each of the three columns.

Line 20.—Nonrefundable credits that are limited to tax liability, such as investment credit, may be changed because of an accumulation distribution. If the total allowable credits for any of the three computation years increases, enter the increase on line 20. However, do not treat as an increase the part of the credit that was allowable as a carryback or carryforward credit in the current or any preceding year other than the computation year.

To refigure these credits, you must consider changes to the tax before credits for each of the three computation years due to previous accumulation distributions.

Attach the proper form for any credit you refigure. The amount determined for items on this line is limited to tax law provisions in effect for those years involved.

Line 22.—Use and attach a separate **Form 4625 or Form 4626, and Form 6251** to recompute the minimum and alternative minimum tax for each earlier year and show any change in those taxes in the bottom margin of the forms. Enter the adjustments on this line.

Line 28.—For estate taxes and taxes on generation-skipping transfers made after June 11, 1976, reduce the partial tax by the estate tax or generation-skipping transfer tax attributable to the accumulated income. See section 667(b)(6) for the computation.

Line 29.—For an accumulation distribution from a foreign trust, an interest charge must be added to the partial tax. This interest charge is not deductible under any section and is figured as follows:

(1) Figure 6% of line 28.

(2) Total the number of years from the year(s) of allocation to the year of distribution (including the year of allocation, but not the year of distribution).

(3) Divide the number in step (2) by the total years of allocation (line 8).

(4) Multiply the answer in step (1) by the decimal in step (3).

(5) Subtract line 28 from line 1. This is the maximum interest.

(6) Enter on line 29 the amount from step (4) or step (5), whichever is less.

If this form is not being used for distributions from a foreign trust, enter zero on line 29.

Line 30.—Enter the amount from this line on Form 1040, line 39. If you are not an individual, add the result to the total tax liability before credits on your income tax return for the year of the accumulation distribution. Attach this form to that return.

Form **4972**

Department of the Treasury
Internal Revenue Service

Special 10-Year Averaging Method

(Use This Form Only For Lump-Sum Distributions from Qualified Retirement Plans)

▶ Attach to Form 1040 or Form 1041. ▶ See separate instructions.

OMB No. 1545-0193

1985

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Name(s) as shown on return

Identifying number

By checking this box ▶ ☐ , I agree, for this and all other lump-sum distributions I receive for the same employee, not to treat any part as capital gain. I know this decision cannot be changed. (See Instruction F.)
Note: Read instructions B. and C. to see if your distribution qualifies for the special 10-year averaging method.

Part I Use Part I If You Have Not Filed Form 4972 for Any Year after 1979

1	Capital gain part from Form 1099-R. If you did not check the box above Part I, enter the capital gain from box 2 of Form 1099-R. If you check the box above Part I, enter zero . . . . *If you have an entry on line 1, also enter that amount on Schedule D.*			1	
2	Ordinary income part from Form 1099-R. If you check the box above Part I, enter the ordinary income plus capital gain from box 1 of Form 1099-R. If you did not check the box above Part I, enter the ordinary income from box 3 of Form 1099-R			2	
3	Add lines 1 and 2			3	
4	Death benefit exclusion (see instructions)			4	
5	Total taxable amount (subtract line 4 from line 3)			5	
6	Current actuarial value of annuity, if applicable (from Form 1099-R, box 9)			6	
7	Adjusted total taxable amount (add lines 5 and 6). If this amount is $70,000 or more, skip lines 8 through 11, and enter this amount on line 12			7	
8	50% of line 7, but not more than $10,000		8		
9	Subtract $20,000 from line 7. Enter difference. If line 7 is $20,000 or less, enter zero . . .	9			
10	20% of line 9		10		
11	Minimum distribution allowance (subtract line 10 from line 8)			11	
12	Subtract line 11 from line 7			12	
13	Federal estate tax attributable to lump-sum distribution. Do not deduct on Form 1040 or Form 1041 the amount attributable to the ordinary income entered on line 2. (See instructions)			13	
14	Subtract line 13 from line 12			14	
15	Enter $2,390 plus 10% of line 14			15	
16	Tax on amount on line 15. Use Tax Rate Schedule X (Single Taxpayers) in Form 1040 Instructions . .			16	
17	Multiply line 16 by 10. If no entry on line 6, skip lines 18 through 23, and enter this amount on line 24			17	
18	Divide line 6 by line 7 (carry to four decimal places)			18	
19	Multiply line 11 by line 18			19	
20	Subtract line 19 from line 6			20	
21	Enter $2,390 plus 10% of line 20			21	
22	Tax on amount on line 21. Use Tax Rate Schedule X (Single Taxpayers) in Form 1040 Instructions . .			22	
23	Multiply line 22 by 10			23	
24	Subtract line 23 from line 17.			24	
25	Divide line 2 by line 3 (carry to four decimal places)			25	
26	Tax on ordinary income part of lump-sum distribution (multiply line 24 by line 25). Show this amount on Form 1040, line 39, or Form 1041, line 25b. . . . . ▶			26	

For Paperwork Reduction Act Notice, see separate instructions.

Part II Use Part II If You Filed Form 4972 for Any Other Year After 1979 or If You Received an Annuity Contract after 1979

			(a) Total received 1985	(b) Total received after 1979 and before 1985	(c) Total of columns (a) and (b)
1	Capital gain part from Form 1099-R. If you did not check the box above Part I, enter the capital gain from box 2 of Form 1099-R. If you check the box above Part I, enter zero . . . . *If you have an entry on line 1, also enter that amount on Schedule D.*	1			
2	Ordinary income part from Form 1099-R. If you check the box above Part I, enter the ordinary income plus capital gain from box 1 of Form 1099-R. If you did not check the box above Part I, enter the ordinary income from box 3 of Form 1099-R	2			
3	Add lines 1 and 2	3			
4	Death benefit exclusion (see instructions)	4			
5	Total taxable amount (subtract line 4 from line 3) . .	5			
6	Current actuarial value of annuity if applicable (from Form 1099-R, box 9)	6			

7	Adjusted total taxable amount (add lines 5 and 6, column (c)). If this amount is $70,000 or more, skip lines 8 through 11, and enter this amount on line 12			7	
8	50% of line 7, but not more than $10,000		8		
9	Subtract $20,000 from line 7. Enter difference. If line 7 is $20,000 or less, enter zero	9			
10	20% of line 9		10		
11	Minimum distribution allowance (subtract line 10 from line 8)			11	
12	Subtract line 11 from line 7.			12	
13	Federal estate tax attributable to lump-sum distribution. Do not deduct on Form 1040 or Form 1041 the amount attributable to the ordinary income entered on line 2. (See instructions)			13	
14	Subtract line 13 from line 12			14	
15	Enter $2,390 plus 10% of line 14			15	
16	Tax on amount on line 15. Use Tax Rate Schedule X (Single Taxpayers) in Form 1040 Instructions .			16	
17	Multiply line 16 by 10. If no entry on line 6, skip lines 18 through 23, and enter this amount on line 24			17	
18	Divide line 6, column (c), by line 7 (carry to four decimal places)			18	
19	Multiply line 11 by line 18			19	
20	Subtract line 19 from line 6, column (c)			20	
21	Enter $2,390 plus 10% of line 20			21	
22	Tax on amount on line 21. Use Tax Rate Schedule X (Single Taxpayers) in Form 1040 Instructions . .			22	
23	Multiply line 22 by 10			23	
24	Subtract line 23 from line 17			24	
25	Divide line 2, column (c), by line 3, column (c) (carry to four decimal places)			25	
26	Tax on ordinary income parts of lump-sum distributions (multiply line 24 by line 25)			26	
27	Tax on ordinary income part of lump-sum distribution shown on Forms 4972, Part I or Part II, you filed for 1980 through 1984			27	
28	Tax on ordinary income part of lump-sum distribution (subtract line 27 from line 26). Show this amount, but not less than zero, on Form 1040, line 39, or Form 1041, line 25b . . . . ▶			28	

1985 Department of the Treasury
Internal Revenue Service

Instructions for Form 4972

Special 10-Year Averaging Method

(Section references are to the Internal Revenue Code.)

General Instructions

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Purpose of Form.—You may find Form 4972 helpful if you received a lump-sum distribution and can use the 10-year averaging method to figure some of your tax at a lower rate. With this method, the ordinary income part of the lump sum is taxed as if you were to receive it in equal parts over 10 years.

Form 4972 is for use with Form 1040 (if you are an individual) or Form 1041 (if you are an estate or trust). Form 4972 is used for three purposes:

(1) To choose, by filing the completed form, to use the 10-year averaging method;

(2) To agree, by checking the box at the top of the form, not to treat as capital gain any part of any distribution you receive for the same employee (see Instruction F); and

(3) To figure tax with the 10-year averaging method.

Caution—You should use Form 4972 if you or the trust for which you are filing received the whole lump sum, or if only trusts shared it. If the lump sum was shared, but not all the recipients were trusts, **Form 5544,** Multiple Recipient Special 10-Year Averaging Method, should be used instead.

The payer should have given you a Form 1099-R or other statement that shows the separate parts of your distribution. The amounts you will use in filling out Form 4972 are capital gain (box 2 of Form 1099-R); ordinary income (box 3); total of ordinary income plus capital gain (box 1); and, if it applies, the current actuarial value of an annuity (box 9). If you do not have a statement that shows this information, ask the payer for one that does show it. Also, if applicable, get the Federal estate tax attributable to the taxable part of the lump-sum distribution from the person administering the deceased employee or self-employed individual's estate.

If you do not use the 10-year averaging method, report the ordinary income part of the lump sum on Form 1040, line 16, or on Form 1041, line 8. Report the capital gain part less any attributable Federal estate tax on Schedule D or, if applicable, 40% of the result on Form 1040, line 14. Federal estate tax attributable to ordinary income is deductible as an itemized deduction if Form 1040 is filed or as a deduction on line 20 if Form 1041 is filed.

If you need more information, get **Publication 575,** Pension and Annuity Income. This publication is available from the Internal Revenue Service. For information about figuring tax on capital gains, see the instructions for your tax return.

If you are an individual, you may be able to use the income averaging method, whether or not you use the 10-year averaging method for your lump-sum distribution. For more information, get **Schedule G** (Form 1040), Income Averaging.

A. Who Can Choose the 10-Year Averaging Method.—During the employee's lifetime, the employee chooses whether the 10-year averaging method will be used. After the employee's death, the recipient chooses.

B. Distributions That Qualify.—For you to use the 10-year averaging method, the lump sum must have been distributed under all the following circumstances.

(1) It came from a qualified pension, profit-sharing, or stock bonus plan.

(2) It came from all the employer's qualified plans of one kind (pension, profit-sharing, or stock bonus) in which the employee had funds.

(3) It was for the full amount credited to the employee. For this purpose, the balance to the credit of the employee does not include the accumulated deductible employee contributions under the plan or amounts payable to an alternate payee under a qualified domestic relations order.

(4) It was paid within a single tax year.

(5) It was paid in any of the following cases:

a. The employee died.

b. The employee was age 59½ or over at the time of the distribution.

c. The employee, who was a common-law employee, quit, retired, was laid off, or was fired from the job. A common-law employee is anyone who performs services that an employer has the right to control (what will be done and how) and whom the employer has the right to fire.

d. The self-employed individual or owner-employee became disabled as defined in section 72(m)(7).

C. Distributions That Do Not Qualify.—The following distributions do not qualify for the 10-year averaging method:

(1) U.S. Retirement Bonds distributed with the lump sum;

(2) Any distribution made before the employee has been a participant in the plan for 5 tax years before the tax year of the distribution, unless it was paid because the employee died;

(3) Any capital gain part of the distribution, unless it can be taxed as described in Instruction F;

(4) The current actuarial value of any annuity contract included in the lump sum (the payer's statement should show this amount, which you should use only to figure tax on the ordinary income part of the distribution);

(5) Any distribution to a 5-percent owner which is subject to penalties under section 72(m)(5)(A)(ii);

(6) A distribution, described in section 402(a)(6)(E), from any other pension plan maintained by an employer, if the recipient elected after December 31, 1978, to roll over a total distribution from the employer's money purchase plan into an Individual Retirement Arrangement (IRA) or another qualified plan;

(7) A distribution from an Individual Retirement Arrangement (IRA);

(8) Redemption proceeds of bonds rolled over tax free to a qualified pension, etc. plan from a qualified bond purchase plan; and

(9) A distribution from a qualified pension or annuity plan when the employee or the employee's surviving spouse received a partial distribution from the same plan (or another plan of the employer required to be aggregated for the lump-sum distribution rules), and the proceeds of the previous distribution were rolled over tax free to an Individual Retirement Arrangement (IRA).

D. How Many Times the 10-Year Averaging Method Can Be Chosen.—This method can be chosen any number of times as long as the employee is under 59½ years old. It can be chosen for only one year if the employee is 59½ or over.

E. When to Choose.—You should use the 10-year averaging method for each tax year it applies. To choose this method, file Form 4972 with your original or amended return. Generally, you have 3 years from the due date of your tax return to choose this method.

F. Using the 10-Year Averaging Method for the Capital Gain Part.—If your distribution included both capital gain and ordinary income (the payer's statement shows the amount of each), you may make an election to treat the long-term capital gain part as ordinary income. Then you will be able to use the 10-year averaging method for both parts. This election is separate from the election for the 10-year averaging method. You have the same time to choose this election as you do to choose the 10-year averaging method. Once you make this election you may not change it, even if you later change your election of the 10-year averaging method.

The election to treat capital gain as ordinary income applies to all qualifying distributions you receive for a particular employee, but does not apply if you receive a distribution for someone else. You cannot use the 10-year averaging method for the capital gain part of a lump sum if you received another distribution for the same employee in an earlier year and any part of that distribution was taxed as a capital gain.

Using the 10-year averaging method for the capital gain part of your lump sum may not be to your advantage. Unless you used it for another distribution you received for the same employee, figure the tax both ways and compare the results. When you figure, be sure to allow for the alternative minimum tax if it applies. The alternative minimum tax is figured on Form 6251.

If you choose the 10-year averaging method to figure the tax on the capital gain part of the lump sum as well as on the ordinary income part, check the box under your name at the top of Form 4972.

Line-by-Line Instructions

In General

If you received more than one distribution, add them and figure the tax on the total amount.

If you and your spouse are filing a joint return and each has received a lump-sum distribution, complete and file a different Form 4972 and combine them on Form 1040, line 39.

If you are filing for a trust that shared the distribution only with other trusts, figure the tax on the whole lump sum first. The trusts then share the tax in the same proportion that they shared the distribution.

Part I

Use Part I if (1) 1985 is the first year after 1979 for which you are using the 10-year averaging method and (2) you have not received an annuity contract after 1979.

Line 1.—If you have no capital gain from the lump sum, or if you are using the 10-year averaging method to figure tax on the capital gain part, enter zero on line 1.

If none of the following paragraphs in this line instruction apply to you, enter the amount from this line on Schedule D (Form 1040), line 9, column g, if you are filing Form 1040, or Schedule D (Form 1041), line 7, column f, if you are filing Form 1041. Identify it as "Capital gain from lump-sum distribution."

If you are filing Form 1040 and do not need Schedule D to report other capital gains or losses, enter 40% of your capital gain on Form 1040, line 14.

If you can take the death benefit exclusion on line 4, you will use less than the whole capital gain to figure the entry for Form 1040, line 14, or for Schedule D. To figure the part of the capital gain to use, follow these steps, using amounts from Form 4972: divide line 1 by line 3, and multiply the result by line 5. If you are filing Schedule D (Form 1040), enter the result on line 9, column g, and identify it as "Capital gain from lump-sum distribution less death benefit exclusion." If you are not filing Schedule D, enter 40% of the result on Form 1040, line 14. If you are filing Schedule D (Form 1041), enter the result on line 7, column f, and identify it as "Capital gain from lump-sum distribution less death benefit exclusion."

If you have an entry on line 13, you have to decrease the capital gain by the amount of Federal estate tax attributable to it. To figure this amount, subtract the amount entered on line 25 from 1.00. The result is the portion of the distribution applicable to the capital gain. Multiply the amount of tax entered on line 13 by this amount. The result is the Federal estate tax attributable to the capital gain. If you do not need to file Schedule D, subtract the tax from the capital gain and enter 40% of the result on Form 1040, line 14. If you are filing Schedule D, subtract the Federal estate tax as figured from the amount you would have entered in the gain column of the appropriate Schedule D. Identify it as "Capital gain from lump sum less Federal estate tax."

Line 2.—Community property laws do not apply to figuring tax on the amount you report on line 2. Do not report on Form 1040 or 1041 any amount you report on line 2.

Line 4.—If you received the distribution because of the employee's death, you can exclude up to $5,000 of the lump sum from your gross income. If the trust for which you are filing shared the lump sum with other trusts, it will share the exclusion in the same proportion as it shared the distribution. This exclusion applies to the beneficiaries or estates of common-law employees, self-employed individuals whose death occurred after December 31, 1983, and shareholder-employees who owned more than 2% of an S corporation. Publication 575 gives more information about the death benefit exclusion.

Line 13.—A beneficiary who receives a lump-sum distribution because of an employee's death must reduce the taxable part of the distribution by any Federal estate tax on the part included in the estate. The reduction is made by entering on line 13 the Federal estate tax attributable to the lump-sum distribution.

Do not deduct on Form 1040 or Form 1041 the amount entered on this line that is attributable to the ordinary income entered on line 2.

Lines 16 and 22.— Use Tax Rate Schedule X (single taxpayers) for this purpose no matter what method you use to figure the tax on your other income, and no matter whether you are filing Form 1041.

Lines 18 and 25.—Decimals should be carried to four places. For example, if you divide $10,000 by $30,000, the result would be .3333.

Part II

Use Part II if there was any other year after 1979 for which you used the 10-year averaging method for the lump-sum distributions or during which you received an annuity contract.

To figure your 1985 tax with the 10-year averaging method, add these earlier distributions and annuity values to any that you received in 1985. Figure the tax on the total, and then subtract the tax on the distributions in earlier years. The tax you subtract should have been figured and reported on Form 4972 for those years.

Use the line-by-line instructions for Part I to help you fill in Part II. The line numbering is the same.

Example I.—Using Form 4972 to Figure Tax on a Lump-Sum Distribution with No Annuity

In 1985, Mr. Smith retired from the X Corporation. He received a taxable $60,000 lump-sum distribution from its qualified plan. His Form 1099-R from the payer of the plan shows $12,000 as ordinary income and $48,000 as capital gain.

Total taxable amount ($12,000 plus $48,000)		$60,000
Subtract minimum distribution allowance:		
Smaller of $10,000 or ½ of $60,000	$10,000	
Reduction ($60,000 less $20,000 multiplied by 20%)	8,000	2,000
Total taxable amount less minimum distribution allowance		$58,000
$2,390 plus 10% of $58,000		$ 8,190
Tax on $8,190 from Tax Rate Schedule X		771
Tax on $8,190 multiplied by 10 ($771 multipled by 10)		$ 7,710
Ratio of ordinary income to total taxable amount ($12,000 divided by $60,000)		.20
Tax on ordinary income part of lump-sum distribution ($7,710 multiplied by .20)		$ 1,542

If Mr. Smith uses the 10-year averaging method for the capital gain part also, he would report $60,000 on Form 4972, line 2, and his tax would be $7,710 ($7,710 multiplied by 1.00 (100%)). He would not report the capital gain of $48,000 on Schedule D or Form 1040, line 14.

Example II.—Using Form 4972 to Figure Tax on a Lump-Sum Distribution with an Annuity

In 1985, Ms. Brown retired from the Y Corporation. She received a taxable $60,000 lump-sum distribution from its qualified plan. Her Form 1099-R from the payer of the plan shows $12,000 as ordinary income, $18,000 as capital gain, and $30,000 as the current actuarial value of an annuity.

Total taxable amount ($12,000 plus $18,000)		$30,000
Add current actuarial value of annuity		30,000
Adjusted total taxable amount		$60,000
Subtract minimum distribution allowance:		
Smaller of $10,000 or 1/2 of $60,000	$10,000	
Reduction ($60,000 less $20,000 multiplied by 20%)	8,000	2,000
Adjusted total taxable amount less minimum distribution allowance		$58,000
$2,390 plus 10% of $58,000		$ 8,190
Tax on $8,190 from Tax Rate Schedule X		$ 771
Tax on $8,190 multiplied by 10 ($771 multiplied by 10)		$ 7,710
Ratio of current actuarial value of annuity to adjusted total taxable amount ($30,000 divided by $60,000)		.50
Minimum distribution allowance applicable to current actuarial value of annuity ($2,000 multiplied by .50)		$ 1,000
Current actuarial value of annuity less minimum distribution allowance applicable to value of annuity ($30,000 less $1,000)		$29,000
$2,390 plus 10% of $29,000		$ 5,290
Tax on $5,290 from Tax Rate Schedule X		$ 351
Tax attributable to annuity ($351 multiplied by 10)		$ 3,510
Tax on adjusted total taxable amount less tax applicable to annuity ($7,710 less $3,510)		$ 4,200
Ratio of ordinary income part to total taxable amount ($12,000 divided by $30,000)		.40
Tax on ordinary income part of lump-sum distribution ($4,200 multiplied by .40)		$ 1,680

If Ms. Brown uses the 10-year averaging method for the capital gain part also, she would report $30,000 on Form 4972, line 2, and her tax on it would be $4,200 ($4,200 multiplied by 1.00 (100%)). She would not report the capital gain of $18,000 on Schedule D or Form 1040, line 14.

2828 ☐ VOID ☐ CORRECTED For Official Use Only

Type or machine print TRUSTEE'S or ISSUER'S name, street address, city, state, and ZIP code	1 Regular IRA, SEP, or DEC contributions made in 1985 for 1984	OMB No. 1545-0747 **1985**	**Individual Retirement Arrangement Information**
	2 Regular IRA, SEP, or DEC contributions made in 1985 and 1986 for 1985		
TRUSTEE'S or ISSUER'S Federal identification no. / PARTICIPANT'S social security number	3 Rollover IRA, SEP, or DEC contributions		**Copy A For Internal Revenue Service Center**
► Type or machine print PARTICIPANT'S name (first, middle, last)	4 Life insurance cost included in Box 2		For Paperwork Reduction Act Notice and instructions for completing this form, see Instructions for Form 1099 Series, 1098, 5498, and 1096.
Street address			
City, state, and ZIP code			
Account number (optional)			

OCR Form
Do NOT Photocopy

Form **5498**

Do NOT Cut or Separate Forms on This Page

Department of the Treasury - Internal Revenue Service

Instructions to Participant

The information in Boxes 1, 2, 3, and 4 has been submitted to the Internal Revenue Service by the trustee or issuer of your Individual Retirement Arrangement (IRA) or Simplified Employee Pension (SEP) to report regular or rollover contributions made to your IRA or SEP. The boxes may also show information submitted by your employer on deductible employee contributions (DEC's) made by you to the employer's pension plan.

Box 1.—The amount shown is the contributions made during 1985 that you designated as a contribution for 1984. Do not deduct the amount shown in Box 1 on your 1985 tax return. This amount should have been included in the deduction on your 1984 tax return.

Box 2.—The amount shown is the contributions made in 1985 through April 15, 1986, for 1985. Deduct this amount on your 1985 tax return.

Box 3.—This is the amount of any rollover you made in 1985. Rollovers cannot be deducted on your tax return. However, you must report any distribution you received from a plan on the appropriate line of Form 1040. Any amount of the distribution that was rolled over will be subtracted from the distribution and not included in your income.

Box 4.—For endowment contracts only, this is the amount allocable to the cost of life insurance. You cannot deduct this amount on your tax return.

The trustee or issuer of the plan may use the other boxes on this form to give you more information about your IRA, SEP, or DEC.

You are not required to attach a copy of Form 5498 to your income tax return. Keep this form for your records.

Form **5695**

Department of the Treasury
Internal Revenue Service

Residential Energy Credit

▶ **Attach to Form 1040.** ▶ **See Instructions on back.**

▶ **For Paperwork Reduction Act Notice, see Instructions on back.**

OMB No. 1545-0214

1985

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Name(s) as shown on Form 1040

Your social security number

Enter the address of your principal residence on which the credit is claimed if it is different from the address shown on Form 1040.

If you have an energy credit carryover from a previous tax year and no energy savings costs this year, skip to Part III, line 24.

Part I Fill in your energy conservation costs (but do not include repair or maintenance costs).

1 **Was your principal residence substantially completed before April 20, 1977? (See instructions)** ▶ ☐ Yes ☐ No

Note: *You **MUST** answer this question. Failure to do so will delay the processing of your return. If you checked the "No" box, you **CANNOT** claim an energy credit under Part I and you should not fill in lines 2a through 12 of this form.*

2	**a** Insulation	2a		
	b Storm (or thermal) windows or doors	2b		
	c Caulking or weatherstripping	2c		
	d A replacement burner for your existing furnace that reduces fuel use	2d		
	e A device for modifying flue openings to make a heating system more efficient	2e		
	f An electrical or mechanical furnace ignition system that replaces a gas pilot light	2f		
	g A thermostat with an automatic setback	2g		
	h A meter that shows the cost of energy used	2h		
3	Total (add lines 2a through 2h)	3		
4	Enter the part of expenditures made from nontaxable government grants and subsidized financing	4		
5	Subtract line 4 from line 3	5		
6	Maximum amount of cost on which credit can be figured	6	$2,000	00
7	Enter the total energy conservation costs for this residence. Add lines 2 of your 1978, 1979, and 1980 Forms 5695 and line 3 of your 1981, 1982, 1983, and 1984 Forms 5695	7		
8	Subtract line 7 from line 6. If line 7 exceeds line 6, enter zero here and on line 12	8		
9	Enter the nontaxable grants and subsidized financing shown on line 4 of this form	9		
10	Subtract line 9 from line 8. If zero or less, do not complete the rest of Part I	10		
11	Enter the amount on line 5 or line 10, whichever is less	11		
12	Enter 15% of line 11 here and include in amount on line 23 below	12		

Part II Fill in your renewable energy source costs (but do not include repair or maintenance costs).

13	**a** Solar ______ **13b** Geothermal ______ **13c** Wind ______ Total ▶	13d		
14	Enter the part of expenditures made from nontaxable government grants and subsidized financing	14		
15	Subtract line 14 from line 13d	15		
16	Maximum amount of cost on which the credit can be figured	16	$10,000	00
17	Enter the total renewable energy source costs for this residence. Add line 5 of your 1978 Form 5695, line 9 of your 1979 and 1980 Forms 5695, and line 13d of your 1981, 1982, 1983, and 1984 Forms 5695	17		
18	Subtract line 17 from line 16. If line 17 exceeds line 16, enter zero here and on line 22	18		
19	Enter the nontaxable grants and subsidized financing shown on line 14 of this form	19		
20	Subtract line 19 from line 18. If zero or less, do not complete the rest of Part II	20		
21	Enter the amount on line 15 or line 20, whichever is less	21		
22	Enter 40% of line 21 here and include in amount on line 23 below	22		

Part III Fill in this part to figure the limitation.

23	Add lines 12 and 22. If less than $10, enter zero	23		
24	Enter your energy credit carryover from a previous tax year. **Caution**—Do not make an entry on this line if your 1984 Form 1040, line 49, showed an amount of more than zero.	24		
25	Add lines 23 and 24	25		
26	Enter the amount of tax shown on Form 1040, line 40	26		
27	Add lines 41, 42, and 44 from Form 1040 and enter the total	27		
28	Subtract line 27 from line 26. If zero or less, enter zero	28		
29	Residential energy credit. Enter the amount on line 25 or line 28, whichever is less. If less than $10, enter zero. Also, enter this amount on Form 1040, line 43. Complete Part IV below if this line is less than line 25	29		

Part IV Fill in this part to figure your carryover to 1986 (complete only if line 29 is less than line 25).

30	Enter amount from Part III, line 25	30		
31	Enter amount from Part III, line 29	31		
32	Credit carryover to 1986 (subtract line 31 from line 30)	32		

General Instructions

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

A Change You Should Note.—1985 is the last year that expenditures made for energy saving items will qualify for the residential energy credit, and no carryforward will be allowed for taxable years beginning after December 31, 1987.

Purpose of Form.—Use this form to figure your residential energy credit if you had qualified energy saving items installed in your principal residence. The instructions below list conditions you must meet to take the credit. If you have an energy credit carryover from the previous tax year and no energy saving costs this year, skip to Part III of the form. Attach Form 5695 to your tax return. For more information, please get **Publication 903,** Energy Credits for Individuals.

Two energy credits make up the residential energy credit, each with its own conditions and limits. These credits are based on: (1) Costs for home energy conservation; and (2) Costs for renewable energy source property.

The credit is based on the cost of items installed in your principal residence after April 19, 1977, and before January 1, 1986.

What Is Your Principal Residence?—To qualify as your principal residence, your residence must be the home in the United States where you live (you may own it or rent it from another person).

A summer or vacation home does not qualify.

Special Rules.—If you live in a condominium, cooperative apartment, occupy a dwelling unit jointly, or share the cost of energy property, see Publication 903 for more details.

What Are Energy Saving Items?—You can take the credit for energy conservation and renewable energy source items.

Energy conservation items are limited to:

- insulation (fiberglass, cellulose, etc.) for ceilings, walls, floors, roofs, water heaters, etc.;
- storm (or thermal) windows or doors for the outside of your residence;
- caulking or weatherstripping for windows or doors for the outside of your residence;
- a replacement burner for your existing furnace that reduces fuel use. The burner must replace an existing burner. It does not qualify if it is acquired as a component of, or for use in, a new furnace or boiler;
- a device for modifying flue openings to make a heating system more efficient;
- an electrical or mechanical furnace ignition system that replaces a gas pilot light;
- a thermostat with an automatic setback;
- a meter that shows the cost of energy used.

To take the credit for an energy conservation item, you must:

- install the item in your principal residence which was substantially completed before April 20, 1977;
- be the first one to use the item; and
- expect it to last at least 3 years.

For energy conservation items, you may not claim more than $300 ($2,000 × 15%) **accumulated** credit for each principal residence.

Renewable energy source items include solar, wind, and geothermal energy items that heat or cool your principal residence or provide hot water or electricity for it.

Examples of solar energy items that may qualify include:

- collectors;
- rockbeds;
- heat exchangers; and
- solar panels installed on roofs (including those installed as a roof or part of a roof).

An example of an item that uses wind energy is a windmill that produces energy in any form (usually electricity) for your residence.

Geothermal energy property expenditures must be made in connection with a "geothermal deposit." A geothermal deposit is one having a temperature exceeding 50 degrees Celsius (122 degrees Fahrenheit) as measured at the wellhead or in the case of a natural hot spring (where no well is drilled), at the intake to the distribution system. Generally, the qualifying geothermal resources that are economically recoverable are located in states west of the Rocky Mountains (except for geothermal springs located in Arkansas).

To take the credit for a renewable energy source item, you must:

- be the first one to use the item; and
- expect it to last at least 5 years.

For renewable energy source items, you may not claim more than $4,000 ($10,000 × 40%) **accumulated** credit for each principal residence.

What Items Are NOT Eligible for the Energy Credit?—Do not take credit for:

- carpeting;
- drapes;
- wood paneling;
- wood or peat-burning stoves;
- hydrogen fueled residential equipment;
- siding for the outside of your residence;
- heat pumps (both air and water);
- fluorescent replacement lighting systems;
- replacement boilers and furnaces; and
- swimming pools used to store energy.

Federal, State, or Local Government Nontaxable Grants and Subsidized Financing.—Qualified expenditures financed with nontaxable Federal, state, or local government grants cannot be used to figure the energy credit. Also, if Federal, state, or local government programs provide subsidized financing for any part of qualified expenditures, that part may not be used to figure the energy credit. You must reduce the expenditure limits on energy conservation and renewable energy source property for a dwelling by the part of expenditures financed by Federal, state, or local government subsidized energy financing, as well as by the amount of nontaxable Federal, state, or local government grants used to purchase conservation or renewable energy source property.

Figuring the Credit for More Than One Principal Residence.—You can take the maximum credit for each principal residence you live in. If you used all of your credit for one residence in a prior year and then moved, you may take the maximum credit on your next residence. If you are claiming energy conservation costs, your new principal residence had to be substantially completed before April 20, 1977.

To figure your 1985 energy credit for more than one principal residence:

(1) Fill out Part I or II on a separate Form 5695 for each principal residence;

(2) Enter the total of all parts on line 23 of one of the forms;

(3) In the space above line 23, write "More than one principal residence"; and

(4) Attach all forms to your return.

Caution: *You should keep a copy of each Form 5695 that you file for your records. For example, if you sell your principal residence, you will need to know the amount of the credit claimed in prior tax years. If the items for which you took the credit increased the basis of your principal residence, you must reduce the basis by the credit you took.*

If the Credit Is More Than Your Tax.—If your energy credit for this year is more than your tax minus certain other credits, you may carry over the excess energy credit to 1986. See **A Change You Should Note.**

Specific Instructions

Part I, Line 1.—For energy conservation items to qualify, your principal residence must have been substantially completed before April 20, 1977. A dwelling unit is considered substantially completed when it can be used as a personal residence even though minor items remain unfinished.

Lines 2a through 2h.—Enter your energy conservation costs (including expenditures made with nontaxable government grants and subsidized financing) only for this tax year. Count the cost of the item and its installation in or on your principal residence. Do not include the cost of repairs or maintenance for energy conservation items.

Line 4.—Enter the amount of nontaxable government grants and subsidized financing used to purchase the energy items on lines 2a through 2h. If you do not know the amount, check with the government agency that gave you the grant or subsidized financing.

Line 7.—Enter your total energy conservation costs from 1978, 1979, 1980, 1981, 1982, 1983, and 1984 for this principal residence. If your total costs from these years exceed $2,000, you may not claim any additional credit on this residence. If you had energy conservation costs in the previous tax year but could not take a credit because it was less than $10, enter zero.

Line 9.—Enter the nontaxable government grants and subsidized financing from line 4 that you received under Federal, state, or local programs to purchase energy items. You must use the amounts received under these programs to reduce the maximum amount of cost used to figure the credit. Line 7 includes the nontaxable government grants and subsidized financing you received in prior years.

Part II, Lines 13a through 13d.—Enter your renewable energy source costs (including expenditures made with nontaxable government grants and subsidized financing) only for this tax year. Do not include the cost of repairs or maintenance for renewable energy source items.

Line 14.—See Part I, line 4 for an explanation.

Line 17.—Enter your total renewable energy source costs from 1978, 1979, 1980, 1981, 1982, 1983, and 1984 for this principal residence. If your total costs from these years exceed $10,000, you may not claim any additional credit on this residence. If you had renewable energy source costs in the previous tax year but could not take a credit because it was less than $10, enter zero.

Line 19.—Enter the nontaxable government grants and subsidized financing from line 14 that you received under Federal, state, or local programs to purchase energy items. You must use the amounts received under these programs to reduce the maximum amount of cost used to figure the credit. Line 17 includes the nontaxable government grants and subsidized financing you received in prior years.

Part III, Line 24.—Generally, your energy credit carryover will be computed on your prior year Form 5695, Part IV. Exception—If the alternative minimum tax applied, see **Publication 909,** Alternative Minimum Tax.

Part IV.—Complete this part only if line 29 is less than line 25. You can carry over the amount entered on line 32 to your next tax year.

Form **5884**

Department of the Treasury
Internal Revenue Service

Jobs Credit

▶ **Attach to your tax return.**

OMB No. 1545-0219

1985

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Name(s) as shown on return	**Identifying number**

Part I Jobs Credit

1 Enter the number of employees and total qualified wages paid or incurred during the tax year (up to $6,000 for each employee for each of the first two years) for services of employees who are certified as members of a targeted group. See instructions for special rules on qualified summer youth employees.

	Number of employees		Total qualified wages	
First year (Do not include summer youth employees)	(a)		(b)	
Second year (Do not include summer youth employees)	(c)		(d)	
Qualified summer youth employees	(e)		(f)	

2	Enter 50% of line 1(b)	2	
3	Enter 25% of line 1(d)	3	
4	Enter 85% of line 1(f)	4	
5	Current year jobs credit—Add lines 2, 3, and 4. Enter here and include on Schedule C (Form 1040), line 29b; Form 1120, line 13(b), page 1; or the corresponding line on other returns. (Members of a group of trades or businesses under common control, see Specific Instructions.)	5	
6	Flow-through jobs credits from other entities (see table below)	6	
7	Total jobs credit for current year—Add lines 5 and 6 (S corporations, partnerships, estates, trusts, and cooperatives, see instructions for line 7.)	7	

If you are a—	Then enter total of current year jobs credit(s) from—
a Shareholder	Schedule K-1 (Form 1120S), line 10
b Partner	Schedule K-1 (Form 1065), line 12
c Beneficiary	Schedule K-1 (Form 1041), line 10
d Patron	(see instructions for line 6d)

Note: *If you have a 1985 investment credit (Form 3468), credit for alcohol used as fuel (Form 6478), or employee stock ownership plan (ESOP) credit (Form 8007) in addition to your 1985 jobs credit, or if you have a carryback or carryforward of any of these credits, stop here and go to* ***Form 3800****, General Business Credit, to claim your 1985 jobs credit. If you have only a 1985 jobs credit, you may continue with lines 8 through 13 to claim your credit.*

Part II Tax Liability Limitation

8	**a** Individuals—From Form 1040, enter amount from line 46 **b** Corporations—From Form 1120, Schedule J, enter tax from line 3 (or Form 1120-A, Part I, line 1) **c** Other filers—Enter income tax before credits from return	8	
9	**a** Individuals—From Form 1040, enter credit from line 47, plus any orphan drug, nonconventional source fuel, and research credits included on line 49 **b** Corporations—From Form 1120, Schedule J, enter credits from lines 4(a) through 4(e) (Form 1120-A filers, enter zero) **c** Other filers—See instructions for line 9c	9	
10	Income tax liability as adjusted (subtract line 9 from line 8)	10	
11	**a** Enter smaller of line 10 or $25,000 (See instructions for line 11)	11a	
	b If line 10 is more than $25,000—Enter 85% of the excess	11b	
12	Jobs credit limitation—Add lines 11a and 11b	12	
13	Total allowed jobs credit—Enter the smaller of line 7 or line 12. This is your **General Business Credit** for 1985. Enter here and on Form 1040, line 48; Form 1120, Schedule J, line 4(f); Form 1120-A, Part I, line 2; or the proper line of other returns	13	

Instructions

(Section references are to the Internal Revenue Code.)

Fiscal-Year Filers

The jobs credit shown on this form may be claimed only for individuals who began work for you before January 1, 1986.

At the time we printed this form it was uncertain whether Congress would extend this deadline. We will use news media and other means available to provide you with information and instructions on any change.

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

General Business Credit.—The general business credit consists of the investment credit, jobs credit, credit for alcohol used as fuel, and employee stock ownership plan (ESOP) credit. If you have more than one of these credits for 1985, or a carryback or carryforward of any of these credits, you must summarize them on Form 3800, General Business Credit. If you have only a 1985 jobs credit, you do not have to file Form 3800 this year.

Purpose of Form.— Use Form 5884 if you had jobs credit employees and take an income tax credit for wages you paid or accrued for them during the tax year.

Mutual savings institutions, regulated investment companies, and real estate investment trusts can take a limited credit. See section 52(e) and the related regulations.

You can take or revoke the jobs credit any time within 3 years from the due date of your return. Take the credit either on your original return or on an amended return.

For more information, see **Publication 906**, Jobs and Research Credits.

How to Figure the Credit.—In general, figure your jobs credit based on the employee's wages subject to the Federal Unemployment Tax Act (FUTA). Jobs credit wages, however, are limited to $6,000 for each employee ($3,000 for each qualified summer youth employee). Special rules apply in the following cases:

(1) You can take a jobs credit for *agricultural employees* who meet the other tests if their services qualify under FUTA as agricultural labor during more than half of any pay period. Base your credit for each employee on the first $6,000 in wages subject to social security (FICA) tax you paid or accrued for that person during the year.

(2) You can take a credit for *railroad employees* who meet the other tests if their wages qualify under the Railroad Unemployment Insurance Act (RUIA). Base your credit for each employee on the first $500 a month you paid or accrued for that person during the year in wages subject to RUIA tax.

(3) Wages for *youths in a cooperative education program* are not subject to FUTA, but include their wages in the amount you use to figure your jobs credit. Base your jobs credit for each youth on the first $6,000 in wages you paid or accrued for that person during the year.

Your credit is based on a percentage of the wages for each employee in the following targeted groups:

- Referrals by a vocational rehabilitation program.
- Economically disadvantaged Vietnam-era veterans.
- Economically disadvantaged youths.
- Supplemental Security Income (SSI) recipients.
- General assistance recipients.
- Youths in a cooperative education program, who belong to an economically disadvantaged family.
- Economically disadvantaged ex-convicts.
- Eligible work incentive employees.
- Qualified summer youth employees, age 16 or 17, who first worked for you between May 1 and September 15, 1985.

In addition, to claim a jobs credit on an employee's wages:

(1) more than half the wages received from you must be for working in your trade or business;

(2) the employee must be certified, as explained below, as belonging to a targeted group;

(3) you may not claim a credit on wages that were repaid by a Federally funded on-the-job training program, or for which you received work supplementation payments under the Social Security Act;

(4) the employee cannot be your relative or dependent (see section 51(i)); and

(5) the employee cannot be your rehired employee if he or she was not a targeted group member when employed earlier.

Certification is done by a local agency, generally an office of the State Employment Security Agency (Jobs Service). The agency gives the employer a form certifying that the employee is in a targeted group. The certification must be completed or the employer must request, in writing, a certification from the certifying agency by the date the employee begins work (or within 5 days if the employer has received a written preliminary determination that the employee is in a targeted group).

Certification of a Youth in a Cooperative Education Program.—The certification is completed by the school administering the cooperative program. The school gives the employer a completed **Form 6199**, Certification of Youth Participating in a Qualified Cooperative Education Program.

Specific Instructions

Part I

On lines 1 through 5 figure your credit for wages you paid or accrued. If you have credits only from sources that shared a jobs credit (S corporations, partnerships, estates, trusts, or cooperatives), skip lines 1 through 5.

Whether or not you complete lines 1 through 5, enter on line 6 any credits you received from sources that share the credit. Complete the rest of the form to figure the credit to enter on your income tax return.

Controlled groups: The group member proportionately contributing the most first-year wages (or second-year wages if no first-year wages are involved) figures the group credit in Part I and skips Part II.

On separate Forms 5884, that member and every other member of the group skips lines 1 through 4 and enters its share of the group credit on line 5. Each member then completes lines 6 through 13 on its separate form. Each group member attaches to its Form 5884 a schedule showing how the group credit was divided among all the members. The members share the credit in the same proportion that they contributed qualifying wages.

Line 1(a).—Enter the number of employees for whom you have first-year wages.

Line 1(b).—Enter the first-year wages. They are limited to $6,000 of each employee's first-year wages. If you paid first-year wages to any of these employees last year, subtract those wages from the $6,000 limit.

For example, if a jobs credit employee began working in your business on September 1, 1984, and you are a calendar year taxpayer, you would have figured your 1984 jobs credit based on the first-year wages you paid between September 1 and December 31, 1984. You would figure your 1985 jobs credit on the rest of the first-year wages you paid between January 1 and August 31, 1985; and on the second-year wages paid between September 1 and December 31, 1985.

Line 1(c).—Enter the number of employees for whom you have second-year wages.

Line 1(d).—Enter the second-year wages. They are limited to $6,000 for each employee. If you paid second-year wages to any of these employees last year, subtract those wages from the $6,000 limit for that employee.

Line 1(f).—For each qualified summer youth employee, wages are limited to those paid for any 90-day period between May 1 and September 15, up to $3,000. You cannot claim a credit for an employee who was your employee in any prior period.

Line 4. —Taxpayers with qualified summer youth employees. —Include 85% of the first $3,000 of wages paid to each qualified employee.

Line 5.—In general, you must subtract your current year jobs credit on line 5 from the deduction on your return for salaries and wages you paid or owe for 1985. This is true even if you cannot take the full credit this year and must carry part of it back or forward.

An exception is a credit based on salaries and wages you capitalize for depreciation. If you have such a credit, reduce the amount on which you figure depreciation by the part of the current year jobs credit on line 5 that applies to the jobs credit wages you capitalize.

Another exception involves the full absorption method of inventory costing. See the regulations under section 280C to reduce your basis in inventory for the jobs credit.

If either exception applies to you, attach a statement to your return to explain why the amount on line 5 differs from the amount you subtract from your salary and wage deduction. See Publication 906 for details.

Line 6.—If you have flow-through credits from more than one entity or type of entity, add them up and enter the total on line 6.

Line 6d.—If you belong to a cooperative that has an excess jobs credit, the cooperative should have given you a statement showing your share of the excess. Include on line 6 your total excess jobs credit from all cooperatives to which you belong.

Line 7.—*Estates and trusts:* The jobs credit on line 7 is shared between the estate or trust itself and the beneficiaries in proportion to the income allocable to each. On the dotted line to the left of the amount on line 7, the estate or trust should enter its own part of the total jobs credit. Please label it "1041 PORTION" and use *this amount* in Part II to figure the jobs credit to take on Form 1041.

S corporations and partnerships: Prorate the jobs credit on line 7 among the shareholders or partners. Attach Form 5884 to the return and on Schedule K-1 show the credit for each shareholder or partner.

Cooperatives: Most tax-exempt organizations cannot take the jobs credit; but a cooperative described in section 1381(a) takes the jobs credit to the extent it has tax liability. Any excess is shared among its patrons.

Carrybacks and carryforwards: If you cannot use part of the credit because of the tax liability limitations, you may carry it back 3 years, then forward 15 years. Use Form 3800.

Part II

Line 9c. Other filers.—Before you can claim the jobs credit (which will be your general business credit for 1985) against your income tax liability, you must reduce this tax liability by the credits listed below:

- Personal credits
- Foreign tax credit
- Possessions corporation tax credit
- Orphan drug credit
- Nonconventional source fuel credit
- Research credit

Line 11. Limitation.—If the tax liability on line 10 is $25,000 or less, your jobs credit is limited to that tax liability. If the tax liability is more than $25,000, your credit is limited to $25,000 plus 85% of the excess.

If you and your spouse file separate returns, each must use $12,500 instead of $25,000. But if only one had *any* credit, that one may use the entire $25,000.

Controlled corporate groups must divide the $25,000 among all component members. See section 38(c)(3)(B).

Estates and trusts, see section 38(c)(3)(D).

Form **6198**

Department of the Treasury
Internal Revenue Service

Computation of Deductible Loss From an Activity Described in Section 465(c)

► **Attach to your tax return.** ► **See separate instructions.**

OMB No. 1545-0712

1985

31

Name(s) as shown on return

Identifying number as shown on return

Description of Activity

Part I Overall Profit (Loss) From the Activity This Year (Enter losses in parentheses.)

1 Profit (loss) from the activity this year. See instructions	1	
2 Gain (loss) this year from the sale or other disposition of assets used in the activity (or your interests in the activity) that you will be reporting initially on:	▨	
a Schedule D	2a	
b Form 4797	2b	
c Other form or schedule	2c	
3 Other income, gains, or (losses) from the activity this year from Schedule K-1 of Form 1065 or Form 1120S, whichever applies, that were not included above in lines 1, 2a, 2b, and 2c	3	
4 Other deductions from the activity this year, including investment interest expense, that were not used in figuring amounts on lines 1, 2a, 2b, 2c, and 3	4	( )
5 Overall profit (loss) from the activity this year. Combine lines 1, 2a, 2b, 2c, 3, and 4. See instructions before completing the rest of this form	5	

Part II Simplified Computation of Amount At Risk (See instructions for who may use this part.)

6 Adjusted basis (as defined in section 1011) in the activity (or adjusted basis of interest in the activity) on the first day of the tax year. Do not enter less than zero	6	
7 Increases for the tax year	7	
8 Add lines 6 and 7	8	
9 Decreases for the tax year	9	
10 Amount at risk. Subtract line 9 from line 8 and enter result here ► ____________ Also enter the result in the entry space for line 10. However, if the result is less than zero, enter zero in the entry space for line 10 and see **Publication 536** for information on the recapture rules. **Note:** *You may want to use Part III to see which computation (Part II or III) gives you the larger amount at risk. Enter the larger amount (but not less than zero) on line 20, Part IV*	10	

Part III Detailed Computation of Amount At Risk

(If you completed Part III of Form 6198 for 1984, see instructions for Part III before completing this part for 1985.)

11 Investment in the activity (or investment in interest in the activity) at effective date. Do not enter less than zero	11	
12 Increases at effective date	12	
13 Add lines 11 and 12	13	
14 Decreases at effective date	14	
15 Amount at risk (check box that applies): a ☐ At effective date. Subtract line 14 from line 13. Do not enter less than zero. b ☐ From 1984 Form 6198, line 19. (Do not enter the amount from line 10 of the 1984 form.)	15	
16 Increases since (check box that applies): a ☐ Effective date. b ☐ The end of your 1984 tax year	16	
17 Add lines 15 and 16	17	
18 Decreases since (check box that applies): a ☐ Effective date. b ☐ The end of your 1984 tax year	18	
19 Amount at risk. Subtract line 18 from line 17 and enter result here ► ____________ Also enter the result in the entry space for line 19. However, if the result is less than zero, enter zero in the entry space for line 19 and see **Publication 536** for information on the recapture rules. Also enter on line 20 if you are not using the amount from Part II	19	

Part IV Deductible Loss

20 Amount at risk from line 10 or 19, whichever is larger. Do not enter less than zero	20	
Note: *If line 20 is zero, enter zero on line 21. You do not have a deductible loss this year.*	▨	
21 Deductible loss. Enter the smaller of the loss on line 5 or the amount on line 20. See the instructions for where to report any deductible loss and any carryover	21	( )

For Paperwork Reduction Act Notice, see page 1 of Instructions for Form 6198

1985

Department of the Treasury
Internal Revenue Service

Instructions for Form 6198

Computation of Deductible Loss From an Activity Described in Section 465(c)

(Section references are to the Internal Revenue Code, unless otherwise noted.)

General Instructions

Paperwork Reduction Act Notice

We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Purpose of Form

Form 6198 is used to figure:

- The overall profit (loss) from an at-risk activity for 1985 (Part I).
- The amount at risk for 1985 (Part II or Part III).
- The deductible loss for 1985 (Part IV).

The at-risk rules of section 465 limit the loss you can deduct to the amount of the loss or your amount at risk, whichever is less.

At-Risk Activities

Losses from the following activities are affected by the at-risk limitation rules:

(1) Holding, producing, or distributing motion picture films or video tapes.

(2) Farming as defined in section 464(e).

(3) The leasing of any section 1245 property as defined in section 1245(a)(3). (However, certain equipment leasing activities by closely-held C corporations are not subject to the at-risk rules. See sections 465(c)(4) and 465(c)(5).)

(4) Exploring for, or exploiting, oil and gas resources as a trade or business or for the production of income.

(5) Exploring for, or exploiting, geothermal deposits as defined in section 613(e)(3).

(6) Any other activity not included in (1) through (5) above, except the holding of real property (other than mineral property), that is carried on as a trade or business or for the production of income.

Note: *A special exception to the at-risk rules applies to a qualifying business of a qualified C corporation. See section 465(c)(7) and* **Publication 536**, *Net Operating Losses and the At-Risk Limits, for more details.*

Who Must File

Form 6198 is filed by individual taxpayers (including Schedules C and F (Form 1040) filers), partners in a partnership, S corporation shareholders, estates, trusts, and certain closely-held C corporations described in sections 465(a)(1)(B) and 465(a)(3).

File Form 6198 if you, your partnership, your S corporation, or your closely-held C corporation incurred a loss while carrying on as a trade or business or for the production of income, any of the activities listed under the **At-Risk Activities** section and had any of the following amounts invested in your activity or in your investment in the activity:

a. Nonrecourse loans used to finance the activity, to acquire property used in the activity, or to acquire your interest in the activity, that are not secured by your own property (other than that used in the activity); **or**

b. Cash, property, or borrowed amounts used in the activity that are protected against loss by a guarantee, stop-loss agreement, or other similar arrangement (excluding casualty insurance and insurance against tort liability); **or**

c. For tax years beginning after December 31, 1983, amounts borrowed for use in the activity from a person who has an interest in the activity, other than as a creditor, or who is related, under section 168(e)(4), to a person (other than yourself), having such an interest. This does not apply, however, to an interest as a shareholder in the case of amounts borrowed by a corporation from its shareholders. (See Publication 536 for definitions and rules for tax years beginning before January 1, 1984.); **or**

d. Any cash or property contributed to the activity, or to your interest in the activity that is covered by:

- nonrecourse indebtedness or protected against loss by a guarantee, stop-loss agreement, or other similar arrangement; or
- for tax years beginning after December 31, 1983, indebtedness from a person who has an interest in the activity, other than as a creditor, or who is related, under section 168(e)(4), to a person (other than yourself) having such an interest. This does not apply, however, to an interest as a shareholder in the case of amounts borrowed by a corporation from its shareholders. (See Publication 536 for definitions.)

Subject to pending regulations, you may not have to file this form if you are engaged in an activity included in (6) under the **At-Risk Activities** section and you only have borrowed amounts described in **c.** above. Also see Publication 536 for transitional rules if you have an activity listed in (1) through (5) under the **At-Risk Activities** section. You may not have to file.

Aggregation and Separation of Activities by Regulations.—The Secretary has authority to prescribe regulations to aggregate or separate activities for purposes of section 465. At the time these instructions went to print, regulations had not been issued for tax years beginning after December 31, 1984. Therefore, the rules that follow are subject to change. IRS will publicize these changes when additional information is available.

Aggregation or Separation of Activities

The number of Forms 6198 that must be filed depends on whether you can aggregate or separate your at-risk activities. File one form if your activities are listed under the aggregation rules and file a separate form for each activity if your activities are listed under the separation rules.

Aggregation Rules.—All section 1245 properties that are leased or held for lease and placed in service in any tax year of a partnership or an S corporation are treated as one activity.

Activities described in **(6)** under the **At-Risk Activities** section that constitute a trade or business are treated as one activity if the taxpayer actively participates in the management of that trade or business or if the trade or business is carried on by a partnership or an S corporation and 65% or more of the losses for the tax year are allocable to persons who actively participate in the management of the trade or business.

Similar rules apply to activities described in (1) through (5) under the **At-Risk Activities** section.

Separation Rules.—A taxpayer's activity with respect to each film, video tape, section 1245 property (which is leased or held for leasing), farm, oil and gas property (as defined in section 614), or geothermal property (as defined in section 614) is treated as a separate activity.

A taxpayer's activity with respect to each section 1245 property that is leased or held for lease other than through a partnership or S corporation, is treated as a separate activity.

Each investment that is not a part of a trade or business is treated as a separate activity.

Specific Instructions

If you are engaged in more than one at-risk activity or in one at-risk activity and in one non at-risk activity, you must allocate income, gains, losses, and deductions to each activity.

Partnerships and S corporations must give their partners and shareholders a separate statement of income, expenses, and deductions for each at-risk and non at-risk activity.

When filling out Parts I, II, and III, enter only amounts that relate to the activity included on this form. Use tax accounting methods to figure the amounts to enter.

If you are a partner or an S corporation shareholder, enter any items for the activity that are from your investment in the activity or passed through to you on the Schedule K-1 or similar statement.

After the description of the activity, enter the name and identifying number of your partnership or S corporation.

Part I

Taxpayers Other Than Partners or S Corporation Shareholders.—If you have a loss or a deduction from an earlier tax year that you could not deduct because of the at-risk rules, be sure to include those amounts on the appropriate form or schedule on your current year tax return before starting Part I. For example, if in 1984, your Schedule C had a $1,500 loss on line 32, but because of the at-risk rules your loss was limited to $500, include the $1,000 on your 1985 Schedule C under "other expenses" and identify it as a prior year loss.

Partners and S Corporation Shareholders.—If you have a loss or a deduction from an earlier tax year that you could not deduct because of the at-risk rules, these losses and deductions should be included in the current year amounts you enter in Part I, lines 1 through 4. For example, if in 1984, your Schedule K-1 had a $1,500 loss on line 1, but because of the at-risk rules your loss was limited to $500, include both the $1000 loss from 1984 and the amount from your 1985 Schedule K-1 on line 1 of Form 6198.

Line 1

Profit (Loss)

Taxpayers Other Than Partners or S Corporation Shareholders.—Enter your net profit or loss from the at-risk activity without regard to the at-risk limitation. This is the amount you get when you subtract your total deductions (including prior year deductions that were limited because of the at-risk rules) from your total business income for the current year.

Partners and S Corporation Shareholders.—Enter the amount from line 1 of your current year Schedule K-1 (plus any prior year loss from Schedule K-1, line 1, that was limited because of the at-risk rules).

Lines 2a, 2b, and 2c

Gain (Loss)

Combine long-term and short-term gains and losses from the sale or other disposition of assets used in the activity or in your interests in the activity. Enter gains and losses without regard to the at-risk limitation, the section 1202 deduction for capital gains, and the limitation on capital losses under section 1211. If you have more than one item on a line, attach a schedule describing each item.

Do not include amounts on lines 2a and 2b that are also included on line 2c. Enter the form number or schedule letter to the left of the entry space for line 2c. For example, if you file **Form 4684,** Casualties and Thefts, and carry amounts from Form 4684 to Form 4797, either enter the amounts attributable to the activity from Form 4684 on line 2c and write "From Form 4684" in the entry space, or enter the amount attributable to the activity carried from Form 4684 to Form 4797 on line 2b. Amounts reported on Form 4684 that are carried to Schedule A would show either the amount from Schedule A or the amount from Form 4684 on line 2c.

Taxpayers Other Than Partners or S Corporation Shareholders.—The amounts reported on your current year forms and schedules, such as Form 4797 and Schedule D, should include prior year losses that you could not deduct because of the at-risk limitations.

Partners and S Corporation Shareholders.—Include on lines 2a, 2b, and 2c your current year gains and losses and prior year losses attributable to the activity that you could not deduct because of the at-risk limitation.

Lines 3 and 4

Other Income, Gains (Losses), Deductions

Partners and S corporation shareholders include other income, gains, losses, and other deductions included on your Schedule K-1 that have not already been included in lines 1, 2a, 2b, and 2c. All other taxpayers complete these two lines if you have any of the amounts described below.

Line 3.—Enter any refund of overpaid windfall profit tax received attributable to the activity that was not included on line 1.

Line 4.—If you have investment interest expense from your at-risk activity, figure your deductible and nondeductible amounts under section 163(d) first. Then include on line 4 the deductible amount for the current year plus any prior year investment interest expense attributable to the activity that you could not deduct because of the at-risk limitation. Do not include on **Form 4952,** Investment Interest Expense Deduction, amounts included on this line. Instead, enter them directly on the form or schedule you will attach to your tax return.

Your windfall profit tax deduction is limited to your amount at-risk for the activity. If you did not include it on line 1, enter it on line 4.

Line 5.

Overall Profit (Loss)

If line 5 shows an overall profit, you do not have to complete the rest of this form. Report all of the income, gains, losses, and deductions shown on lines 1 through 4 on the appropriate forms and schedules you will attach to your tax return. Also attach this form and keep a copy for your records.

If line 5 shows an overall loss, your loss may be limited to the profit, gain, or income, if any, included on lines 1, 2, and 3. If lines 1, 2, and 3 include income, gain, profit, and loss, separate the items. The profit, gain, and income items are fully reportable (subject to any other limitation, such as the deduction for capital gains under section 1202) on your tax return, and the loss and deduction items are allowable to the extent of the profit, gain, and income items. See the example below. The loss and deduction items must be taken on your tax return in the order shown below. Items from (1), (2), and (3) should not include any tax preference items or investment interest expense.

(1) Loss items included on line 2a and any capital losses included on line 2c.

(2) Loss items included on line 2b and any section 1231 losses included on line 2c.

(3) Any other losses or deductions on lines 1, 2c, 3, and 4. Lines 1 and 2c should not include amounts listed under **(1)** and **(2)** above.

(4) Tax preference items. If you have tax preference items from more than one tax year, the tax preference items from the earliest tax year are allowed first.

(5) Investment interest expense. Investment interest expense should be entered directly on the applicable part of your tax return and not on Form 4952 if these amounts were included on line 4.

Complete the rest of the form to see how much, if any, of the excess loss can be deducted.

Example: X has a Schedule C loss of $460 on line 1 and a Schedule D gain of $310 on line 2a. Line 5 would show an overall loss of $150. X would report the $310 gain on Schedule D and include the $310 loss on Schedule C. X would complete Part II or Part III of Form 6198 to see if the balance of the $150 loss on line 5 is deductible. If it is, X would include the remaining loss of $150 on Schedule C.

Part II

Simplified Computation

Part II is a simplified method of figuring your amount at risk. It can only be used if you know your adjusted basis in the activity, or the adjusted basis of your interest in the partnership's or S corporation's at-risk activity.

Part III is a longer method of figuring your amount at risk but may allow a larger amount at-risk. You may want to figure your amount at risk by both methods, even if you know your adjusted basis in the activity, to see which computation gives you the larger amount.

Line 6

Adjusted Basis At First Day of Tax Year

Sole Proprietors.—Schedule C (Form 1040) and Schedule F (Form 1040) filers should not reduce the amount on this line by any liabilities. See sections 1011 through 1023 for rules on adjusted basis.

Partners.—To figure the adjusted basis, see **Publication 541,** Tax Information on Partnerships.

S Corporation Shareholders.—To figure the adjusted basis, see **Publication 589,** Tax Information on S Corporations.

Note: *If the partnership or S corporation is engaged in more than one at-risk activity or in one at-risk activity and one non at-risk activity, you must figure the part of your adjusted basis that is allocable to each at-risk activity. See the* ***Aggregation or Separation of Activities*** *section to determine how many at-risk activities your partnership or S corporation is engaged in.*

Line 7

Increases for the Tax Year

Do not include the current year's profit, income, or gain shown on lines 1, 2a, 2b, 2c, or 3 of Part I.

Enter amounts that increased your amount at-risk during the current year such as:

(1) Net fair market value of property you own (not used in the activity) that secures nonrecourse loans that were used to finance the activity, to acquire property used in the activity, or to acquire your interest in the activity. Include the nonrecourse loans on line 9. Generally, the net fair market value is determined when the property is pledged as security for the loan.

Do not enter an amount for this item if, for tax years beginning after December 31, 1983, (a) the nonrecourse loan was from a person who has an interest in the activity, other than as a creditor, or who is related, under section 168(e)(4), to a person (other than yourself) having such an interest; and (b) the activity is described in **(1)** through **(5)** under the **At-Risk Activities** section. However, (a) does not apply to an interest as a shareholder in the case of amounts borrowed by a corporation from the shareholders.

If the activity is described in **(6)** under the **At-Risk Activities** section, you may be able to include these amounts, subject to pending regulations.

(2) Cash and the adjusted basis of other property (determined at the time of the contribution) contributed to the activity during the tax year. If, however, you used your own assets to repay a nonrecourse debt and you included an amount in **(1)** above, the amount included as repayments should not exceed the amount by which the balance of the loan at the time of repayment exceeds the net fair market value of property you own (not used in the activity) that secures the debt.

(3) Loans used to finance the activity or to acquire property used in the activity for which you are personally liable. (Do not include amounts included in **(2)** above.) Enter these amounts only if they were not included on line 6.

(4) Percentage depletion for this year deducted in excess of the adjusted basis of depletable property for the activity.

Line 9

Decreases For the Tax Year

Do not include the current year's losses or deductions shown on lines 1, 2a, 2b, 2c, 3, or 4 of Part I.

Enter amounts that decreased your amount at-risk during the current tax year such as:

(1) Nonrecourse loans (including recourse loans changed to nonrecourse loans) used to finance the activity, to acquire property used in the activity, or to acquire your interest in the activity. Only amounts included on line 6 should be entered on line 9.

(2) Amounts, including cash, property, or loans, protected against loss by a guarantee, stop-loss agreement, or other similar arrangement. Enter this amount only if it was included on line 6. Do not include items covered by casualty insurance or insurance against tort liability.

(3) For tax years beginning after December 31, 1983, amounts borrowed from a person who has an interest in the activity, other than as a creditor, or who is related, under section 168(e)(4), to a person (other than yourself) having such an interest. This does not apply, however, to an interest as a shareholder in the case of amounts borrowed by a corporation from its shareholders. Enter this amount only if it was included on line 6 and not included under **(1)** or **(2)** above. This may not apply (subject to pending regulations) to any activity other than those described in item **(1)** through **(5)** under the **At-Risk Activities** section. See Publication 536 for definitions and more information.

(4) Withdrawals and distributions during the tax year, both cash and the adjusted basis of noncash items (less nonrecourse liabilities to which the noncash items are subject), including assets used in the activity used to repay certain debts.

(5) Nonrecourse liabilities to which property you contributed to the activity is subject if included on line 6.

(6) Any cash or property contributed to the activity that is protected against loss by a guarantee, stop-loss agreement, or other similar arrangement; or for tax years beginning after December 31, 1983, is covered by indebtedness from a person who has an interest in the activity, other than as a creditor, or who is related, under section 168(e)(4), to a person (other than yourself) having such an interest. However, this does not apply to an interest as a shareholder in the case of amounts borrowed by a corporation from its shareholders. This may not apply (subject to pending regulations) to any activity other than those described in items **(1)** through **(5)** under the **At-Risk Activities** section. Enter this amount only if it was included on line 6.

Line 10

Amount At Risk

If the amount on this line is smaller than your overall loss from the activity (line 5), you may want to complete Part III to see if Part III gives you a larger amount at risk.

Note: *If the amount on line 10 (or line 19) is zero, you may be subject to the recapture rules. See Publication 536.*

Part III

Detailed Computation

Note: *If you completed Part III of Form 6198 for this activity for 1984:*

(1) *Skip lines 11 through 14;*

(2) *Check box b on line 15;*

(3) *Enter the amount from line 19 of the 1984 form on line 15; and*

(4) *See the instructions for lines 16 and 18 to determine the amounts to enter on these lines.*

If the activity began after one of the effective dates shown below, **and** you did not complete Part III of Form 6198 for this activity for 1984, do not complete lines 11, 12, 13, and 14. Enter zero on line 15 and complete the rest of Part III.

Effective Dates

Generally, the effective date is the first day of the first tax year beginning after December 31, 1975, if the activity is one of the following, and it does not meet the exceptions discussed in Publication 536:

- Holding, producing, or distributing motion picture films or video tapes.
- Farming (as defined in section 464(e)).
- Leasing any section 1245 property (as defined in section 1245(a)(3)).
- Exploring for, or exploiting, oil and gas resources.

If the activity is exploring for, or exploiting, geothermal deposits (as defined in section 613(e)(3)), the effective date is generally October 1, 1978, for wells started after September 30, 1978, in tax years ending after September 30, 1978. Generally, if the well was started before October 1, 1978, you are not subject to the at-risk rules for that well.

In most cases, the effective date for all other at-risk activities, is the first day of the first tax year beginning after December 31, 1978, unless the activity meets one of the exceptions discussed in Publication 536.

However, if you are a partner or an S corporation shareholder, the date you became a partner or shareholder may determine whether you are subject to the at-risk rules and whether you meet one of the exceptions to the at-risk rules for certain activities. See Publication 536 for more information.

Line 11

Investment in the Activity At Effective Date

Use the worksheet below to figure your investment in the activity at the effective date. Enter all amounts as of the effective date. Do not complete the worksheet if you are a partner or an S corporation shareholder. Instead, enter on line 11, the basis of your investment in the partnership or S corporation at the effective date. If the partnership or S corporation is engaged in both at-risk and non at-risk activities, allocate your investment between the at-risk and non at-risk activities. Enter the part that is allocable to the at-risk activity on line 11.

Line 11 Worksheet Instructions

Lines 3a and 3b of worksheet. See the instructions for line 16, item (2) on page 6 for the rule on basis. Generally, the amounts for lines 3a and 3b of the worksheet can be taken directly from your depreciation schedule. Be sure to use the depreciation schedule you filed at the effective date, not the schedule for the current tax year.

Line 10b. If you use a reserve for bad debts, subtract from your accounts receivable the balance of the reserve on the effective date but only up to the amount you were allowed as a deduction under section 166(c) for years before the effective date.

Line 12

Increases At Effective Date

Enter your share of amounts such as the following:

(1) Net fair market value of your own property (not used in the activity) that secures nonrecourse loans used to finance the activity, to acquire property used in the activity, or to acquire your interest in the activity, that will be included on line 14. Generally, the net fair market value is determined when the property is pledged as security for a loan. Do not enter an amount for this item if, for tax years beginning before

Line 11 Worksheet—For Figuring Your Investment in the Activity at the Effective Date

(If the activity began after the effective date, do not complete this worksheet.)

1	Cash on hand and in banks for the activity			1	
2	Inventories for the activity			2	
3a	Cost or other basis of depreciable assets for the activity. (See instructions above.)	3a		▨	
b	Accumulated depreciation for the activity	3b		▨	
4	Adjusted basis of depreciable assets for the activity. Subtract line 3b from line 3a.			4	
5a	Cost or other basis of depletable assets at the time contributed to the activity	5a		▨	
b	Accumulated depletion taken on or after property was contributed to the activity	5b		▨	
6	Adjusted basis of depletable assets for the activity. Subtract line 5b from line 5a.			6	
7	Adjusted basis of land for the activity (net of any amortization)			7	
8	Other assets for the activity			8	
9	Cash basis taxpayer investment in the activity at the effective date. Add lines 1, 2, 4, 6, 7, and 8. Enter here and on Form 6198, Part III, line 11. (Accrual basis taxpayers also complete lines 10a through 14 below.)			9	
10a	Trade notes and accounts receivable for the activity	10a		▨	
b	Reserve for bad debts for the activity. (See instructions above.)	10b		▨	
11	Net receivables for the activity. Subtract line 10b from line 10a			11	
12	Add lines 9 and 11			12	
13	Accounts payable for the activity			13	
14	Accrual basis taxpayer investment in the activity at the effective date. Subtract line 13 from line 12. Enter here and on Form 6198, Part III, line 11			14	

January 1, 1984: (a) the nonrecourse loan was from a person who is related to you under section 267(b), or who has an interest in the activity, other than as a creditor, (see Publication 536 for definitions); and (b) the activity is described in **(1)** through **(5)** under the **At-Risk Activities** section. If the activity is described in **(6)** under the **At-Risk Activities** section, you may be able to include these amounts, subject to pending regulations.

(2) Total losses from years before the effective date for which there were equal or greater amounts not at risk at year end. See the worksheet below to figure this amount.

Make all entries on a year-by-year basis. Do not accumulate totals of earlier losses or nonrecourse debts. Be sure to include amounts only for years before the effective date.

Caution: *If you took a deduction for percentage depletion for an item of depletable property in excess of the adjusted basis of the property in a year for which you had a loss for the activity, subtract the amount of the excess from the loss for that year.*

Line 14

Decreases At Effective Date

Enter your share of amounts such as the following:

(1) Nonrecourse loans outstanding at the effective date, used to finance the activity, to acquire property used in the activity, or to acquire your interest in the activity, including recourse loans changed to nonrecourse loans. Enter this amount only if it was included on line 11.

(2) Amounts, including cash, property, or loans, protected against loss by a guarantee, stop-loss agreement, or other similar arrangement outstanding at the effective date. Enter this amount only if it was included on line 11. Do not include items covered by casualty insurance or insurance against tort liability.

(3) For tax years beginning before January 1, 1984, amounts borrowed from a person who is related to you under section 267(b), or who has an interest in the activity, other than as a creditor, outstanding at the effective date. Enter these amounts only if they were included on line 11 and not included under **(1)** or **(2)** above. Subject to pending regulations, this may not apply to any activity other than those described in item **(1)** through **(5)** under the **At-Risk Activities** section. See Publication 536 for definitions and more information.

(4) If you are **not** an S corporation shareholder, also include liens and encumbrances on property you contributed to the activity that are included on line 11. If you are an S corporation shareholder, do not include any loans that were assumed by the corporation or that were liens or encumbrances on property you contributed to the corporation if the corporation took the property subject to the debt.

(5) Any cash or property contributed to the activity included on line 11 that is covered by nonrecourse indebtedness; protected against loss by a guarantee, stop-loss agreement, or similar arrangement; or covered by indebtedness from a person who is related to you under section 267(b), or who has an interest in the activity, other than as a creditor (see item **(3)** above).

Line 15

Amount At Risk At Effective Date or for 1984

If you completed Part III of Form 6198 for 1984:

- Check box b; **and**
- Enter the amount from line 19 of the 1984 form on this line. Do not enter the amount from line 10 of the 1984 form on this line.

The amount on this line may not include any amounts that are not at risk.

Line 16

Increases

If you completed Part III of Form 6198 for 1984:

- Check box b; **and**
- Enter on this line any increases described in **(1)** through **(9)** below, which occurred since the end of your 1984 tax year.

If you completed Part III of the 1984 form, "since effective date" means since the end of your 1984 tax year.

Line 12 Worksheet—For Figuring Your Total Losses From Years Before the Effective Date for Which There Were Equal or Greater Amounts Not At Risk at Year End

(a) Year	(b) Amount of loss for the year	(c) Amount not at risk at end of year	(d) Total amounts from column (f) for all prior years	(e) Subtract (d) from (c)	(f) Lesser of (b) or (e)
			▨		
Total (include on line 12, Form 6198) . . . . ▶					

Worksheet Instructions

Use the first line of the worksheet for the first year in which you had a loss and amounts not at risk. List each subsequent year in order.

Column (d). For each year after the first year, enter the total amount in column (f) for all prior years.

Example: A had losses in 1960, 1961, and 1965. At the end of each of those years, A had outstanding amounts not at risk of $1,000. A had losses of $500 in 1960, $300 in 1961, and $500 in 1965.

For 1960, A would enter $500 in column (b), $1,000 in column (c), $1,000 in column (e), and $500 in column (f).

For 1961, A would enter $300 in column (b), $1,000 in column (c), $500 in column (d) (the total amount from column (f) for all prior years), $500 in column (e), and $300 in column (f).

For 1965, A would enter $500 in column (b), $1,000 in column (c), $800 in column (d) (the total amount from column (f) for all prior years ($500 + $300)), $200 in column (e), and $200 in column (f). Of the $500 loss for 1965, only $200 is a loss for which there was an equal or greater amount not at risk at year end.

A's total loss from years before the effective date for which there were equal or greater amounts not at risk at year end is $1,000.

Enter your share of amounts such as the following:

(1) Net fair market value of property you own (not used in the activity) that secures nonrecourse loans that were acquired since the effective date and used to finance the activity, to acquire property used in the activity, or to acquire your interest in the activity. Generally, the net fair market value is determined when the property is pledged as security for the loan.

Do not enter the net fair market value if, for tax years beginning after December 31, 1983, (a) the nonrecourse loan was from a person who has an interest in the activity, other than as a creditor, or was related, under section 168(e)(4), to a person (other than yourself) having such an interest; and (b) the activity is described in **(1)** through **(5)** under the **At-Risk Activities** section. However, (a) does not apply to an interest as a shareholder in the case of amounts borrowed by a corporation from its shareholders. (See Publication 536 for definitions.) If the activity is described in **(6)** under the **At-Risk Activities** section, you may be able to include these amounts, subject to pending regulations.

(2) Cash, or adjusted basis of property other than cash, contributed to the activity since the effective date. Adjusted basis is the basis that would be used in determining the amount of loss if the property were sold immediately after you contributed it to the activity. See **Publication 551,** Basis of Assets. If you are an S corporation shareholder, and you contributed property to the corporation subject to a liability, including a liability you are personally required to repay, then you must reduce the total of the adjusted bases of all the property you contributed by the total of all liabilities the property was subject to, whether the corporation took the property subject to, or assumed the liabilities.

(3) Loans used to finance the activity, to acquire property used in the activity, or to acquire your interest in the activity for which you are personally liable that were **not** included in **(2)** above.

(4) Total net income from this activity since the effective date (excess of all items of income received or accrued over the allowable deductions). Do not enter any amount less than zero. Do not include the current year's income, gain, or profit.

If you are not an S corporation shareholder, enter the total net profits from the activity since the effective date, taking into account only those years the activity had a net profit. For years since the effective date that the activity had a net loss, see the instructions for line 18, item **(6)**.

If you are an S corporation shareholder, enter your total net income from the activity for profit years since the effective date. Income from the activity includes gain recognized under section 357(c) on contributions of property to the activity and on distributions from the activity, as well as your share of the activity's taxable income.

(5) Gain recognized on the transfer or disposition of all or part of the activity or your interest in the activity since the effective date.

(6) Amounts you had to include in income since the effective date because your amount at risk was less than zero.

(7) All money from outside the activity used to repay loans included on lines 14 and 18, since the effective date. If, however, you used your own assets to repay a nonrecourse debt and you included an amount in **(1)** above, the amounts included as repayments should not exceed the amount by which the balance of the loan at the time of repayment exceeds the net fair market value of property you own (not used in the activity) that secures the debt.

(8) Percentage depletion deducted in excess of the adjusted basis of the depletable property for the activity since the effective date. Use the worksheet on the next page to figure this amount. Be sure to include the amount for the current year.

(9) If you are an S corporation shareholder, enter your loans as a shareholder to your S corporation since the effective date. Do not include notes that you have given to the activity and that are still outstanding.

Line 17

Do not include on this line any amounts not at risk.

Line 18

Decreases

If you completed Part III of Form 6198 for 1984:

- Check box b; **and**
- Enter on this line any decreases described in **(1)** through **(10)** below that occurred since the end of your 1984 tax year.

If you completed Part III of the 1984 form, "since effective date" means since the end of your 1984 tax year.

Enter your share of amounts such as the following:

(1) Nonrecourse loans used to finance the activity, to acquire property used in the activity, or to acquire your interest in the activity that are not secured by property you own (not used in the activity). Enter this amount only if it was included on line 16 and the activity started after the effective date. See the instructions at the beginning of Part III for information on effective dates.

(2) Cash, property, or borrowed amounts protected against loss by a guarantee, stop-loss agreement, or other similar arrangement. Do not include items covered by casualty insurance or insurance against tort liability. Enter this amount only if it was included on line 16 and the activity started after the effective date. See the instructions at the beginning of Part III for information on effective dates.

(3) For tax years beginning after December 31, 1983, amounts borrowed from a person who has an interest in the activity, other than as a creditor, or is related, under section 168(e)(4), to a person (other than yourself) having such an interest. This does not apply, however, to an interest as a shareholder in the case of amounts borrowed by a corporation from its shareholders. Enter this amount only if it was included on line 16 and if the activity started after the effective date and the amount was not included under **(1)** or **(2)** above. This may not apply (subject to pending regulations) to any activity other than those described in item **(1)** through **(5)** under the **At Risk Activities** section. See the instructions at the beginning of Part III for information on effective dates.

(4) Cash and adjusted basis of property withdrawn or distributed since the effective date. The adjusted basis is the basis that would be used to figure the loss if the property had been sold by the activity at the time you withdrew it or it was distributed to you.

If you are an S corporation shareholder and the property is subject to debt that would be included on line 14 (or on this line except for the fact that there are liens or encumbrances on the property in the activity), reduce the basis of the distributed property by the amount of the debt.

If you are not an S corporation shareholder, reduce the adjusted basis of property withdrawn by the amount, at the time of withdrawal, of any nonrecourse liability to which the property is subject. Do not include any money from the activity used to repay loans described in the instructions for line 14. Include amounts that were withdrawn and recontributed. Recontributed amounts should also be included in line 16. Partners and S corporation shareholders who recognize gain on distributions from the partnership or S corporation should include these distributions on line 18 and also take them into account as income from the activity on line 16, unless the gain is recognized in the current year.

(5) Recourse loans changed to nonrecourse loans since the effective date.

(6) Total losses from this activity deducted since the effective date. Take into account only those years in which you had a net loss. Do not include the current year's losses or deductions. Also, do not include losses or deductions you could not deduct because of section 465.

(7) Any nonrecourse indebtedness on property or cash you contributed to the activity since the effective date.

(8) Any other at-risk amounts included on line 11 that changed to not at-risk amounts since the effective date.

(9) If you are an S corporation shareholder, do not include any loans that were assumed by the corporation or that were liens or encumbrances on property you contributed to the corporation since the effective date if the corporation took the property subject to the debt.

(10) Any cash or property contributed to the activity since the effective date that is covered by nonrecourse indebtedness; protected against loss by a guarantee, stop-loss agreement, or other similar arrangement; or covered by indebtedness from a person who has an interest in the activity, other than as a creditor, or is related, under section 168(e)(4), to a person (other than yourself) having such an interest. This does not apply, however, to an interest as a shareholder in the case of amounts borrowed by a corporation from its shareholders.

Note: *For loans, enter the amount of the loan you incurred, not the current balance of the loan.*

Line 16 Worksheet (Item 8)—For Figuring Percentage Depletion Deducted in Excess of the Adjusted Basis of Depletable Property

(a) Year	(b) Percentage depletion deduction	(c) Adjusted basis of depletable property before any depletion deduction for the year	(d) Excess percentage depletion (column (b) less column (c)) but not less than zero
Total . . . . ▶			

Line 19

Amount At Risk

If the amount on this line is zero, you may be subject to the recapture rules. See Publication 536.

Part IV

Deductible Loss

Line 21

Deductible Loss

Note: *When comparing lines 5 and 20, disregard the parentheses around the amount on line 5 only for purposes of determining the amount to enter on line 21.*

If the loss on **line 5,** Part I, is **equal to or less than** the amount on **line 20,** report the items in Part I in full on your return, subject to any other limitations, such as the capital loss limitation. Follow the instructions for your tax return. **Do not** complete the worksheet on the next page.

If the loss on **line 5,** Part I, is **more than** the amount on **line 20,** you must limit your deductible loss to the amount on line 20, subject to any other limitations. If the amount on line 21 is made up of only one loss item, report the amount shown on line 21 on your return, subject to any other limitations. Follow the instructions for your tax return to determine where to report the amount on your return. If the amount on line 21 is made up of more than one loss item in Part I (such as a Schedule C loss and a Schedule D loss), there are ordering rules to determine which of these losses should be deducted first. Use the worksheet on the next page to figure which loss is deductible first and how much is carried over to next year.

Examples. A. If line 5 is a loss of ($400) and line 20 is $1,000, enter ($400) on line 21. **B.** If line 5 is a loss of ($1,600) and line 20 is $1,200, enter ($1,200) on line 21. **C.** If line 5 is a loss of ($800) and line 20 is zero, enter zero on line 21.

Line 21 Worksheet—For Figuring Where To Report Any Deductible Loss or Carryover

1	Enter deductible loss from Part IV, line 21 of Form 6198. (If zero, see instructions below.)		1	
2	**Enter loss, if any, from Form 6198, Part I, line 2a, and any capital losses included on line 2c.** (If zero, skip line 3 and enter the amount from line 1 on line 4.)		2	
3	Enter the smaller of the amount on line 1 or line 2 here and in parentheses on Schedule D		3	
4	Balance of deductible loss available this year. Subtract line 3 from line 1. (If zero, complete line 5. Otherwise, go to line 6.)		4	
5	Loss carryover to next year. Subtract line 3 from line 2	5	▨	
6	**Enter loss, if any, from Form 6198, Part I, line 2b, and any section 1231 losses included on line 2c.** (If zero, skip line 7 and enter the amount from line 4 on line 8.)		6	
7	Enter the smaller of the amount on line 4 or line 6 here and in parentheses on Form 4797		7	
8	Balance of deductible loss available this year. Subtract line 7 from line 4. (If zero, complete line 9. Otherwise, go to line 10.).		8	
9	Loss carryover to next year. Subtract line 7 from line 6	9	▨	
10	**Enter loss, if any, from Form 6198, Part I: (a) Line 1** .... **(b) Line 2c** .... **(c) Line 3** ....; **or deduction, if any, from (d) Line 4** .... Total, add lines 10a, 10b, 10c, and 10d. (If zero on lines 10(a), 10(b), 10(c), and 10(d), skip line 11, and enter the amount from line 8 on line 12.)		10(e)	
11	Enter the smaller of the amount on line 8 or line 10(e) here and in parentheses (except for amounts from Form 6198, line 4) on your tax return. Follow the instructions for your tax return		11	
12	Balance of deductible loss available this year. Subtract line 11 from line 8. (If zero, complete line 13. Otherwise, go to line 14.)		12	
13	Loss carryover to next year. Subtract line 11 from line 10(e)	13	▨	
14	**Tax preference items not included in lines 2, 6, 10a, 10b, 10c, and 10d above.** (If zero, skip line 15 and enter the amount from line 12 on line 16.)		14	
15	Enter the smaller of the amount on line 12 or line 14 here and on your tax return. Follow the instructions for your tax return		15	
16	Balance of deductible loss available this year. Subtract line 15 from line 12 (If zero, complete line 17. Otherwise, go to line 18.)		16	
17	Loss carryover to next year. Subtract line 15 from line 14	17	▨	
18	**Investment interest expense from Form 6198, Part I, line 4.** (If zero, stop here. Do not complete lines 19 and 20.)		18	
19	Enter the smaller of the amount on line 16 or line 18 here and on your tax return. Follow the instructions for your tax return. Do not enter this amount on Form 4952		19	
20	Loss carryover to next year. Subtract line 19 from line 18	20	▨	▨

Line 21 Worksheet Instructions

Do not enter loss amounts in parentheses. Entries on lines 2, 6, 10a, 10b, 10c, 10d, and 10e should not include any tax preference items or investment interest expense used in determining the entries in Part I of Form 6198. Enter any tax preference items included on Form 6198, Part I, line 5, on line 14 only and any tax preference items that are not deductible, because of the at-risk rules, on line 17 (see instructions for line 1 below). Enter any investment interest expense included on Form 6198, Part I, line 5, on line 18 only and any investment interest expense that is not deductible, because of the at-risk rules, on line 20 (see instructions for line 1 below).

Line 1. If line 1 of the worksheet is zero, enter the amount shown on Form 6198, lines 1 through 4, on the worksheet as follows:

If there is an amount on Form 6198, line	Enter the amount on the worksheet on line
1	13, 17, or 20, whichever applies
2a or any capital losses included on line 2c	5
2b or any section 1231 losses included on line 2c	9
2c that is not a capital loss or a section 1231 loss	13
3	13, 17, or 20, whichever applies
4	13, 17, or 20, whichever applies

Do not complete any other lines on the worksheet. Enter any tax preference items on line 17 only. Enter any investment interest expense on line 20 only.

Lines 2, 6, 10a, 10b, 10c, 10d, 14, and 18. Do not include any amount allowed up to the amount of income, gain, or profit. In the example shown on page 3 of the instructions for line 5 of Form 6198, X would **not** include on line 10a the $310 of the Schedule C loss that was allowed up to the amount of the Schedule D gain.

If lines 2 or 6 include amounts from line 2c of Form 6198, you must enter these amounts on the form shown on line 2c first and not on the form shown on lines 2 or 6 of this worksheet.

Line 3. If long-term and short-term amounts are reported on Schedule D, allocate the deductible amount between long-term and short-term.

Lines 3, 7, 11, 15, and 19. Add any amounts on these lines to any amount that you were allowed up to the amount of income, gain, or profit. Report the total of the two amounts on the appropriate form or schedule.

Lines 5, 9, 13, 17, and 20. Any loss that is not deductible because of the at-risk rules is treated as a deduction allocable to the activity in the next tax year. If there is an amount on any of these lines, keep this worksheet for use in preparing next year's tax return.

Example: Any Schedule C (Form 1040) loss that is not deductible in 1985 will be shown on the 1986 Schedule C (Form 1040) under "Other expenses."

Lines 10a and 11. In the example shown on page 3 of the instructions for line 5 of Form 6198, X would enter $150 on line 10a (the difference between the Schedule C loss ($460) and the amount of that loss that was allowed up to the amount of income ($310), Schedule D gain). X would add the amount, if any, on line 11 to the ($310) previously allowed and enter the total on Schedule C.

Line 10b. Do not include on this line any amounts that were included on line 2 or line 6 of the worksheet.

Line 15. If you have tax preference items from more than one tax year, the tax preference items from the earliest tax year are allowed first.

Line 17. Be sure to keep a record of any tax preference items on a year-by-year basis. See the instructions for line 15 for more information.

Form **6251**

Department of the Treasury
Internal Revenue Service

Alternative Minimum Tax Computation

▶ **Attach to Forms 1040, 1040NR, 1041 or 990-T (Trust).**

OMB No. 1545-0227

1985
32

Name(s) as shown on tax return

Identifying number

1 Adjusted gross income from Form 1040, line 33 or Form 1040NR, line 32 (see instructions)					1	
2 Deductions (see instructions):						
a (1) Medical and dental expense from Schedule A, line 5	2a(1)					
(2) Multiply Form 1040, line 33 by 5% (.05)	2a(2)					
(3) Subtract line 2a(2) from line 2a(1). (If zero or less, enter zero)			2a(3)			
b Contributions from Schedule A, line 18			2b			
c Casualty and theft losses from Schedule A, line 19			2c			
d Qualified interest on property used as a residence from Schedule A, line 11			2d			
e (1) Interest, other than line 2d above, from Schedule A, line 14	2e(1)					
(2) Net investment income (If zero or less, enter zero)	2e(2)					
(3) Enter the smaller of line 2e(1) or line 2e(2)			2e(3)			
f Gambling losses to the extent of gambling winnings from Schedule A, line 22			2f			
g Estate tax allowable under section 691(c) from Schedule A			2g			
h Estates and trusts only: Charitable deduction and income distribution deduction			2h			
i Add lines 2a(3), b, c, d, e(3), f, g, and h					2i	
3 Subtract line 2i from line 1					3	
4 Tax preference items:						
a Dividend exclusion			4a			
b 60% capital gain deduction			4b			
c Accelerated depreciation on nonrecovery real property or 15 (or 18)-year real property			4c			
d Accelerated depreciation on leased personal property or leased recovery property other than 15 (or 18)-year real property			4d			
e Amortization of certified pollution control facilities			4e			
f Mining exploration and development costs			4f			
g Circulation and research and experimental expenditures			4g			
h Reserves for losses on bad debts of financial institutions			4h			
i Depletion			4i			
j Incentive stock options			4j			
k Intangible drilling costs			4k			
l Add lines 4a through 4k					4l	
5 Alternative minimum taxable income (add lines 3 and 4(l)) (short period returns, see instructions)					5	
6 Enter: $40,000, if married filing joint return or Qualifying widow(er) $30,000, if single or head of household $20,000, if married filing separate return or estate or trust					6	
7 Subtract line 6 from line 5. If zero or less, do not complete the rest of this form					7	
8 Enter 20% of line 7					8	
9 Amount from Form 1040, line 50, or Form 1040NR, line 51. (Do not include Form 1040, line 39, or Form 1040NR, line 41.) (estates and trusts, see instructions)					9	
10 Subtract line 9 from line 8. If zero or less, enter zero					10	
11 Foreign tax credit					11	
12 Alternative minimum tax (subtract line 11 from line 10). Enter on Form 1040, line 52, Form 1040NR, line 52, Form 1041, line 31, or Form 990-T, page 1, line 14					12	

Instructions

(Section References are to the Internal Revenue Code)

Paperwork Reduction Act Notice.— We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Who Must File.—File this form if : (a) You are liable for the alternative minimum tax; **or** (b) you have one or more tax preference items on lines 4c through 4k; **or** (c) you have an amount on line 2e(3), and line 2e(2) includes income other than interest and dividend income.

Individuals, estates or trusts may be liable if their adjusted gross income plus tax preference items listed on line 4 total more than line 6.

For more information, see **Publication 909,** Alternative Minimum Tax.

Minimum Tax Deferred From Earlier Year(s).—If a net operating loss carryover from an earlier year(s) reduces taxable income for 1985, and the net operating loss giving rise to the carryover resulted in the deferral of minimum tax in that earlier year(s), all or part of the deferred minimum tax may be includible as tax liability for 1985. Figure the deferred minimum tax in the worksheet in Publication 909 and enter it on Form 1040, line 52, or Form 1041, line 31. Write "Deferred Minimum Tax."

Partners, Beneficiaries, etc.—If you are a:

(1) Partner or shareholder of an S corporation, take into account separately your distributive share of items of income and deductions that enter into the computation of tax preference items.

(2) Beneficiary of an estate or trust, see section 58(c).

(3) Participant in a common trust fund, see section 58(e).

(4) Shareholder or holder of beneficial interest in a regulated investment company or a real estate investment trust, see section 58(f).

Carryback and Carryover of Unused Credits.—It may be necessary to figure the carryback or carryover of certain unused credits. See section 55(c)(3).

Note: If you have an earned income credit, you must reduce that credit by any alternative minimum tax.

(Continued on back)

Line by Line Instructions

Line 1, Estates and Trusts.—Adjusted gross income is figured in the same way as for an individual except that the costs of the administration of the estate or trust are allowed in figuring adjusted gross income.

All taxpayers.—Do not include in adjusted gross income, interest expense incurred to purchase or carry a limited business interest in a partnership or S corporation. Instead, include in line 2(e)(1).

Do not include in line 1 any alcohol fuel credit included in income.

A net operating loss deduction taken in figuring adjusted gross income may have to be changed in figuring the alternative minimum tax. See **Publication 909**, Alternative Minimum Tax, for details and attach a computation.

Lines 2(a) through 2(h).—Do not include on these lines any deduction that can be carried back or forward as a net operating loss or forward as a charitable contribution.

Individuals.—Complete and attach Schedule A (Form 1040) for any deduction listed on these lines, whether or not you completed it in figuring Form 1040, line 34. If you did not use Schedule A to figure Form 1040, line 34, write **"Alt Min Tax"** in the top margin of Schedule A.

Estates and Trusts.—Enter on the applicable line any deduction listed on these lines allowable to the estate or trust.

Line 2(d).—Enter the part of the interest that is from debts you incurred in acquiring, constructing, or substantially rehabilitating property, other than a houseboat, which you, or certain family members listed in section 267(c)(4), use as a residence.

If the interest expense is on debts incurred before July 1, 1982 the following applies. At the time you incurred the debt, it must have been secured by property which you, or certain family members listed in section 267(c)(4), used as a residence.

Line 2(e)(2).—Enter your investment income minus investment expenses.

Investment income is your gross income from interest, dividends, rents, and royalties, and any amount treated as ordinary income under sections 1245, 1250, and 1254. Do not include income from a trade or business. Include as investment income, your capital gain net income from the sale or exchange of property held for investment, and the amount to be entered on line 4(a). Add or subtract from investment income, any income or loss from a limited business interest.

Investment expenses are those expenses allowable against the production of investment income provided they are allowed in figuring adjusted gross income and not includible in line 4.

Line 4(b), 60% Capital gain deduction.—Individuals.—Enter your 60% capital gain deduction from your Schedule D (Form 1040), line 22, or Form 4798, line 9. If you had an entry on Form 1040, line 14, enter 60% of your capital gain distributions. Do not include the capital gain deduction attributable to a sale or exchange of a principal residence.

Estates and Trusts.—Enter the capital gain deduction taken into account on Forms 1041 or 990-T. However, an amount paid or permanently set aside for a charitable purpose is not a tax preference item.

Lines 4(c) and 4(d), Accelerated depreciation on real property; Accelerated depreciation on leased personal property or leased recovery property other than 15-year (or 18-year) real property.—If you use the Class Life Asset Depreciation Range (CLADR) System, use the asset guideline period as the straight-line useful life to figure lines 4(c) and (d).

For (c) but not (d), use any variance in useful life under section 167(m)(1) as the straight-line useful life.

Line 4(c).—For property other than recovery property, enter the amount you get (never less than zero) by subtracting the depreciation that would have been allowable for the year if you had used the straight-line method, from the depreciation or amortization actually allowable. Figure this amount separately for each property.

For 15-year (or 18-year) real property, or low income housing, enter the amount by which the deduction allowed under section 168(a) (or section 167 for section 167(k) property) is more than the deduction which would have been allowable had the property been depreciated using a 15-year (or 18-year) period and the straight-line method without salvage value.

Line 4(d).—For leased property other than recovery property, enter the amount you get (never less than zero) by subtracting the depreciation that would have been allowable for the year if you had used the straight-line method, from the depreciation or amortization actually allowable. Figure this amount separately for each property.

For leased recovery property other than 15-year (or 18-year) real property, or low income housing, enter the amount by which your deduction under section 168(a) is more than the deduction allowable using the straight-line method with a half-year convention, no salvage value, and the following recovery period:

3 year property	5 years
5 year property	8 years
10 year property	15 years
15 year public utility property	22 years

Note: *If the recovery period actually used is longer than the recovery period in 4(c) or 4(d), do not complete lines 4(c) or 4(d).*

Line 4(e), Amortization of certified pollution control facilities.—Enter the amount by which the amortization allowable under section 169 is more than the depreciation deduction otherwise allowable.

Line 4(f), Mining exploration and development costs.—For each mine or other natural deposit (other than an oil or gas well), enter the amount by which the deductions allowable under section 616(a) or 617 are more than the amount that would have been allowable if you had amortized the expenses over a 10-year period.

Line 4(g), Circulation and research and experimental expenditures.—Enter the amount by which the deductions allowable for circulation and research and experimental expenditures under sections 173 or 174(a) are more than the amount that would have been allowable if you had amortized the circulation expenses over a 3-year period and the research and experimental expenditures over a 10-year period.

Line 4(h), Reserves for losses on bad debts of financial institutions.—Enter your share of the excess of the addition to the reserve for bad debts over the reasonable addition to the reserve for bad debts that would have been allowable if you had maintained the bad debt reserve for all tax years based on actual experience.

Line 4(i), Depletion.—In the case of mines, wells, and other natural deposits, enter the amount by which the deduction for depletion under section 611 (including percentage depletion for geothermal deposits), is more than the adjusted basis of such property at the end of the tax year. Figure the adjusted basis without regard to the depletion deduction and figure the excess separately for each property.

Line 4(j), Incentive stock options.—If you received stock by the exercise of an incentive stock option, enter the amount by which the fair market value of the shares at the time of exercise was more than the option price. See sections 57(a)(10) and 422A.

Line 4(k), Intangible drilling costs.—Intangible drilling costs are a tax preference item to the extent that the excess intangible drilling costs are more than your net income from oil, gas, and geothermal properties.

Figure excess intangible drilling costs as follows: From the allowable intangible drilling and development costs (except for costs in drilling a nonproductive well), subtract the amount that would have been allowable if you had capitalized these costs and either amortized them over the 120 months that started when production began, or treated them according to any election you made under section 57(d)(2).

Your net income from oil, gas, and geothermal properties is your gross income from them, minus the deductions allocable to them, except for excess intangible drilling costs and nonproductive well costs.

Figure the line 4(k) amount separately for oil and gas properties which are not geothermal deposits and for all properties which are geothermal deposits.

Lines 5 and 8.—If this is a short period return, use the formula in section 443(d)(1) to determine the amount to enter on these lines.

Nonresident Alien Individuals.—If you disposed of U.S. real property interests at a gain, see Form 1040NR instructions for a special rule in figuring line 8.

Line 9, Estates and trusts.—Enter the amount from Form 1041, line 29. Do not include any tax from Forms 4970, 4972 or 5544.

Line 11, Foreign Tax Credit.—If line 10 is more than zero, and you incurred foreign taxes and elect to take them as a credit, enter on line 11 the foreign tax credit allowed against the alternative minimum tax. Figure this credit as follows:

(1) Use and attach a separate Form 1116 for each type of income specified at the top of Form 1116.

(2) Print across the top of each Form 1116 used: "ALT MIN TAX."

(3) Part I.—Fill in a new Part I using that portion of your income, deductions and tax preference items from Form 6251, attributable to sources outside the U.S.

(4) Part III.—Complete only the following lines:

(a) Insert on line 5 the result of the following:

- *(i)* the amount from Part III, line 5 of the Form 1116 used to figure the credit allowed against your regular tax, minus
- *(ii)* the amount from Part III, line 15 of that Form 1116, plus
- *(iii)* the smaller of (A) the amount from Part III, line 15 of that Form 1116, or (B) Form 6251, line 10 (or if more than one Form 1116 is being used, an allocable portion of Form 6251, line 10).

(b) Complete lines 6 through 8, using the result of step 3 for line 6.

(c) Line 11.—Enter Form 6251, line 5.

(d) Complete line 12 as indicated in Part III.

(e) Line 13.—Enter Form 6251, line 8.

(f) Complete lines 14 and 15 as indicated in Part *III*.

(5) Part IV.—Enter on line 11, Form 6251, the amount from line 7, Part IV of this Form 1116 (but not more than the amount on Form 6251, line 10).

Form **6252**

Department of the Treasury
Internal Revenue Service

Computation of Installment Sale Income

▶ See instructions on back. ▶ Attach to your tax return.
Use a separate form for each sale or other disposition of property on the installment method.

OMB No. 1545-0228
1985
79

Name(s) as shown on tax return

Identifying number

A Description of property ▶

B Date acquired (month, day, and year) ▶ **C** Date sold (month, day, and year) ▶

D Was property sold to a related party after May 14, 1980? (See instructions) ☐ Yes ☐ No

E If the answer to D is "Yes," was the property a marketable security? ☐ Yes ☐ No

If you checked "Yes" to question E, complete Part III.
If you checked "No" to question E, complete Part III for the year of sale and for 2 years after the year of sale.

Part I Computation of Gross Profit and Contract Price *(Complete this part for the year of sale only.)*

Proof as of Nov. 4
(subject to change)

1 Selling price including mortgages and other indebtedness (Do not include stated or unstated interest)			1	
2 Mortgages and other indebtedness buyer assumes or takes property subject to. (Do not include new mortgages from a bank or other source.)	2			
3 Subtract line 2 from line 1	3			
4 Cost or other basis of property sold	4			
5 Depreciation allowed or allowable	5			
6 Adjusted basis (subtract line 5 from line 4)	6			
7 Commissions and other expenses of sale	7			
8 Income recapture from line 30 of Form 4797. Also enter on line 11 of Form 4797	8			
9 Add lines 6, 7, and 8			9	
10 Subtract line 9 from line 1. If zero or less, do not complete rest of form			10	
11 If question A is a principal residence, enter the sum of Form 2119, lines 7 and 13			11	
12 Gross profit (subtract line 11 from line 10)			12	
13 Subtract line 9 from line 2. If line 9 is more than line 2, enter zero			13	
14 Contract price (add line 3 and line 13)			14	

Part II Computation of Taxable Part of Installment Sale
(Complete this part for the year of sale and any year you receive a payment.)

15 Gross profit ratio (divide line 12 by line 14) (for years after the year of sale, see instructions)			15	
16 For year of sale only—enter amount from line 13 above; otherwise enter zero			16	
17 Payments received during year. (Do not include stated or unstated interest.)			17	
18 Add lines 16 and 17			18	
19 Payments received in prior years. (Do not include stated or unstated interest.)	19			
20 Taxable part of installment sale (multiply line 18 by line 15)			20	
21 Part of line 20 that is ordinary income under recapture rules (applies only to sales before 6/7/84)			21	
22 Subtract line 21 from line 20. Enter on Schedule D or Form 4797			22	

Part III Information and Computation for Related Party Installment Sale
(Do not complete this part if you received the final installment payment this tax year.)

F Name, address, and taxpayer identifying number of related party

G Did the related party, during this tax year, resell or dispose of the property? ☐ Yes ☐ No

H If the answer to question G is "Yes," complete lines 23 through 30 below unless one of the following conditions is met (check only the box that applies).

☐ The first disposition was a sale or exchange of stock to the issuing corporation.
☐ The second disposition was an involuntary conversion where the threat of conversion occurred after the first disposition.
☐ The second disposition occurred after the death of the original seller or purchaser.
☐ It can be established to the satisfaction of the Internal Revenue Service that tax avoidance was not a principal purpose for either of the dispositions. If this box is checked, attach an explanation. (See instructions)

23 Selling price of property sold by related party	23	
24 Enter contract price from line 14 for year of first sale	24	
25 Enter the smaller of line 23 or line 24	25	
26 Total payments received by the end of your 1985 tax year. Add lines 18 and 19	26	
27 Subtract line 26 from line 25. If line 26 is more than line 25, enter zero	27	
28 Multiply line 27 by the gross profit ratio on line 15 for year of first sale	28	
29 Part of line 28 that is ordinary income under recapture rules (applies only to sales before 6/7/84)	29	
30 Subtract line 29 from line 28. Enter on Schedule D or Form 4797	30	

For Paperwork Reduction Act Notice, see back of form.

Form **6252** (1985)

Proof as of Nov. 4
(Subject to change)

Instructions

(Section references are to the Internal Revenue Code, unless otherwise noted.)

Paperwork Reduction Act Notice

We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Purpose of Form

Form 6252 is used to report income from sales of real property and casual sales of personal property other than inventory if you will receive any payments (including payments from sales reported on the installment method prior to 1980) in a tax year after the year of sale.

Dealers in real or personal property may use the installment method, but should report the sale directly on their tax return instead of using this form.

Use Form 6252 unless you elect not to report the sale on the installment method. If you want to elect out, see the instructions for your **Schedule D**, Capital Gains and Losses and Reconciliation of Forms 1099-B, or **Form 4797**, Gains and Losses From Sales or Exchanges of Assets Used in a Trade or Business and Involuntary Conversions. If you do not use the installment method, report the sale on your Schedule D or Form 4797.

You need not use this form for year-end stock sales where payment is received in the following year. Instead, report the sale directly on your Schedule D for the year of payment unless you elect out of the installment method by reporting it on Schedule D in the year of sale.

Report the ordinary income from sections 1245, 1250, 179, and 291 in full in the year of the sale even if no payments were received.

Use Form 4797 to figure and report ordinary income from sections 1245, 1250, 179, and 291. Partnerships and S corporations see the instructions for Part III of Form 4797.

What Parts To Complete

For the Year of Sale—Complete questions A through E, Part I and Part II.

For Years After the Year of Sale—Complete questions A through E and Part II, for any year you receive a payment from an installment sale.

Related Party Sales—If you sold marketable securities to a related party, complete Form 6252 for each year of the installment agreement, even if you did not receive a payment. (See **Installment Sales to Related Party** for the definition of a related party.) For a year after the year of sale, complete questions A through E and Part III. (If you received a payment, also complete Part II.) If you sold property other than marketable securities to a related party, complete the form for the year of sale and for 2 years after the year of sale, regardless of whether you received any payments. If during this 2-year period you did not receive a payment, complete questions A through E and Part III. After this 2-year period, see "For Years After the Year of Sale" above.

Installment Sales to Related Party

A related party is your spouse, child, grandchild, parent, or a related corporation, S corporation, partnership, estate, or trust.

If one of the exceptions in Part III applies, check the appropriate box and do not complete lines 23 through 30. If you can establish that tax avoidance was not a principal purpose for either disposition, attach an explanation. The following are some examples that are not tax avoidance:

- The second disposition is also an installment sale and the payment terms are equal to or longer than the first installment sale.
- The property sold is not real property or real property improvements, and it is used by the related purchaser as inventory for sale in the ordinary course of conducting a trade or business.
- The second disposition is a charitable contribution but not a bargain sale, and the property is capital gain type property for which an election under section 170(b)(1)(C)(iv) is not in effect.
- Certain tax-free transfers, certain like-kind exchanges, and in some cases bankruptcy of the related buyer.

Sale of Depreciable Property to Related Party

If you sell depreciable property to a related party as defined in section 1239, installment sale rules do not apply, unless it is established to the satisfaction of the Internal Revenue Service that tax avoidance was not a principal purpose for the sale.

See **Publication 537**, Installment Sales, and the regulations under section 453 for more information, including single sales of several assets, disposition of installment obligations, like-kind exchanges, and change in selling price.

Line-by-Line Instructions

Do not include interest received, carrying charges received, or unstated interest on this form. See Publication 537 for information on unstated interest.

Partnerships and S corporations that pass through a section 179 expense to their partners or shareholders should not include this amount on lines 5 and 8.

Line 1—Selling price.—Enter the sum of the money, face amount of the installment obligation, and the fair market value of other property, such as the buyer's note, that you received or will receive in exchange for the property sold. Include in line 1 any existing mortgage or other debt the buyer assumes or takes the property subject to.

If there is no stated maximum selling price, such as in a contingent sale, attach a schedule showing the computation of gain, and enter the taxable part on lines 20 and 28, if Part III applies. See the regulations under section 453.

Line 2—Mortgage and other indebtedness.—Enter only mortgages (or other indebtedness) the buyer assumes from the seller or takes the property subject to. Do not include new mortgages the buyer gets from a bank, the seller, or other source.

For information on wraparound mortgages, see regulations section 15A.453-1(b)(3)(ii).

Line 4—Cost or other basis of property sold.—Enter the original cost and other expenses you incurred in buying the property. Add the cost of improvements, etc. and subtract any casualty losses previously allowed. For more information, see **Publication 551**, Basis of Assets.

Line 5—Depreciation allowed or allowable.—Enter all depreciation or amortization you deducted or should have deducted from the date of purchase until the date of sale. Add any deduction you took under section 179 and the section 48(q)(1) downward basis adjustment, if any. Subtract 50% of any investment tax credit recaptured if the basis of the property was reduced under section 48(q)(1).

Line 7—Commissions and other expenses of sale.—Enter sales commissions, advertising expenses, attorney and legal fees, etc., you incurred in selling the property.

Line 8—Ordinary income recapture.—Enter the part of the gain from the sale of depreciable property recaptured under sections 1245 and 1250 (including sections 179 and 291) here and on line 11 of Form 4797. See Form 4797, Part III and Part IV of the instructions for Form 4797, to figure the recapture.

Line 15—Gross profit ratio.—Enter the gross profit ratio determined for the year of sale even if you did not file Form 6252 for that year.

Line 17—Payments received during the year.—Enter all money you received and the fair market value of any property you received in 1985. Include as payments any amount withheld to pay off a mortgage or other debt, such as broker and legal fees. Do not include the buyer's note, or any mortgage or other liability assumed by the buyer. If you did not receive any payments in 1985, enter zero.

If in prior years, an amount was entered on the equivalent of line 25 of the 1985 form, do not include it on this line. Include it, however, on line 19.

Line 19—Payments received in prior years.—Enter all money and the fair market value of property you received before 1985 from the sale.

Lines 21 and 29.—For sales before 6/7/84, use this line to report gain from sale of depreciable property recaptured as ordinary income, other than the section 179 deduction. See Form 4797, Part III and the instructions to Part IV of Form 4797.

Lines 22 and 30—Trade or business property.—Enter this amount on Form 4797, line 3, if the property was held more than 6 months (more than one year if acquired before 6/23/84). If the property was held 6 months or less (one year or less if acquired before 6/23/84), enter it on Form 4797, line 15.

Capital assets—Enter this amount on Schedule D as short-term or long-term gain. Use the lines identified as from Form 6252.

Line 23.—If in 1985, the related party sold part of the property from the original sale, enter the selling price of the part resold. If part was sold in an earlier year and part was sold this year, enter the cumulative selling price.

Form **6781**

Department of the Treasury
Internal Revenue Service

Gains and Losses From Section 1256 Contracts and Straddles

▶ **To be filed with Form 1040, 1041, 1065, 1120, 1120S, etc.**

OMB No. 1545-0644

1985

82

Name(s) as shown on tax return	**Identifying number**

A. ☐ Check here if you made the mixed straddle election under section 1256(d) this year or an earlier year.
B. ☐ Check here if you made the straddle-by-straddle identification election under section 1092(b).
C. ☐ Check here to make the mixed straddle account election under section 1092(b).
D. ☐ Check here if you elect to carryback a net section 1256 contracts loss.

Part I Section 1256 Contracts Marked to Market

	a. Identification of account	b. LOSS	c. GAIN
1			

2 Add column b and column c, line 1 . . . . ( )
3 Combine columns b and c of line 2 and enter the net gain or (loss) . . . .
4 Form 1099-B adjustments (see instructions, attach schedule) . . . .
5 Combine lines 3 and 4 . . . .
6 If you have a net section 1256 contracts loss and checked box D, enter the amount to be carried back ( )
7 Subtract line 6 from line 5 . . . .
8 Multiply line 7 by 40%. Enter as a short-term capital gain or (loss) on Schedule D. Identify as Form 6781, Part I
9 Multiply line 7 by 60%. Enter as a long-term capital gain or (loss) on Schedule D. Identify as Form 6781, Part I

Part II Gains and Losses From Straddles (Attach a separate schedule listing each straddle and its components.)

Section A.—Losses From Straddles

	a. Description of property	b. Date acquired	c. Date sold	d. Gross sales price	e. Cost or other basis plus expense of sale	f. LOSS If column e is more than d, enter difference. Otherwise, enter zero.	g. Unrecognized gain on offsetting positions.	h. Recognized loss. If column f is more than g, enter difference. Otherwise, enter zero.
10								

11a Enter short-term portion of line 10, column h here and on Schedule D. Identify as Form 6781, Part II . . . . ( )
b Enter long-term portion of line 10, column h here and on Schedule D. Identify as Form 6781, Part II . . . . ( )

Section B.—Gains From Straddles

	a. Description of property	b. Date acquired	c. Date sold	d. Gross sales price	e. Cost or other basis plus expense of sale	f. GAIN If column d is more than e, enter difference. Otherwise, enter zero.
12						

13a Enter short-term portion of line 12, column f here and on Schedule D. Identify as Form 6781, Part II . . . . .
b Enter long-term portion of line 12, column f here and on Schedule D. Identify as Form 6781, Part II . . . . . .

Part III Unrecognized Gains From Positions Held on Last Day of Tax Year (Memo Entry Only—See Instructions)

	a. Description of property	b. Date acquired	c. Fair market value on last business day of tax year	d. Cost or other basis as adjusted	e. UNRECOGNIZED GAIN If column c is more than d, enter difference. Otherwise, enter zero.
14					

For Paperwork Reduction Act Notice, see back of form.

Instructions

(Section references are to the Internal Revenue Code, unless otherwise noted.)

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Purpose of Form.—Form 6781 is to be used by individuals, partnerships, fiduciaries, corporations, etc., that held section 1256 contracts or straddles. For more information, see **Publication 550**, Investment Income and Expenses.

Do not use Form 6781 to report hedging transactions, as defined in section 1256(e). Report them directly on your tax return. Any gain or loss on a hedging transaction is treated as ordinary income or loss. For limitation on losses from hedging transactions see section 1256(e)(5).

Traders in section 1256 contracts, see section 1256(f)(3).

Elections.—

Mixed straddle election.—You may elect not to have the marked to market rules apply to section 1256 contracts that are part of a mixed straddle. A mixed straddle is any straddle, at least one (but not all) of the positions of which is a section 1256 contract. Each position forming part of the straddle must be clearly identified on the day the first section 1256 contract forming part of the straddle is acquired as being part of such straddle. If you made this election, it will apply for all later years as well. It cannot be revoked without the consent of the Commissioner. If you made this election, check box A and report the section 1256 component in Part II instead of Part I.

Straddle-by-straddle identification election.—Make this election according to Regulation section 1.1092(b)-3T(d) by identifying each position before the close of the day the identified mixed straddle is established, or at or before the time the position is disposed of. No straddle-by-straddle identification election may be made for any straddle in which a mixed straddle election was made or if one or more positions are includible in a mixed straddle account. See Regulation section 1.1092(b)-3T for more information, and treatment of gains and losses from positions included in a mixed straddle for which a straddle-by-straddle identification election is made.

Mixed straddle account election.—Make this election according to Regulation section 1.1092(b)-4T(f) to establish one or more mixed straddle accounts for 1986, by the due date (without extensions) of your 1985 tax return. To make this election check box C and attach the statement required by that regulation, to your return. See Regulation section 1.1092(b)-4T for more information, including definition of mixed straddle account, and treatment of gains and losses from positions in a mixed straddle account. Also, see regulation 1.1092(b)-4T(c)(4) for the limitation on the total annual account net gain or loss.

In both the straddle-by-straddle identification election and mixed straddle account election, if the net gain or loss is attributable to a net-non-section 1256 position, then the net gain or loss is treated as a short-term capital gain or loss. Enter it directly on your Schedule D and identify the election. If the net gain or loss is attributable to a section 1256 position, enter the gain or loss in Part I of Form 6781 and identify the election.

If you did not make these elections, and you have a loss on the section 1256 component, use Part II to reduce the loss by any unrecognized gain on the non-section 1256 component before making an entry in Part I. You must also reduce the loss from any section 1256 component of a straddle which would be a mixed straddle if the positions had been properly identified as such.

Net section 1256 contracts loss election.—An individual or partnership having a net section 1256 contracts loss for 1985 may elect to carry it back three years. The amount which may be carried back cannot be more than the net section 1256 contracts gain in the year to which the loss is carried. The loss is carried to the earliest year first. See section 1212(c) for definition of net section 1256 contracts loss and net section 1256 contracts gain. Make the election by checking box D and entering the amount to be carried back in line 6. To carry your loss back, file an amended Form 6781 for the applicable year, together with a Form 1040X or amended return.

Part I

A section 1256 contract is (1) any regulated futures contract, (2) any foreign currency contract, (3) any nonequity option, and (4) any dealer equity option.

A regulated futures contract is a contract for which the amount required to be deposited or withdrawn depends on a system of marking to market, and is traded on or subject to the rules of a qualified board or exchange.

For definitions of qualified board or exchange, foreign currency contract, nonequity option, and dealer equity option, see section 1256(g).

Include in Part I all section 1256 contracts open at the end of your tax year or closed out during the year. If you receive a Form 1099-B or equivalent statement, enter the amount from box 9 of each form in columns b or c of Form 6781, Part I. In column a of Form 6781, Part I write "Form 1099-B" and identify the account by writing the broker's name.

On Form 6781, Part I, list each transaction separately for which you do not receive a Form 1099-B or equivalent statement, or if the Form 1099-B is not for your tax year. Describe each transaction in column a.

Line 4.— If the Form 1099-B you receive includes a straddle or hedging transaction, it may be necessary to make certain adjustments listed in (a) through (c) below. Attach a schedule listing each adjustment and enter the total on line 4.

(a) Enter the regulated futures part of a mixed straddle if you made any of the mixed straddle elections.

(b) If you did not make any of the mixed straddle elections or the straddle wasn't identified as a mixed straddle and you had a loss on the regulated futures part which was less than the unrecognized gain on the non-regulated futures part, enter the amount of the loss. If the unrecognized gain is less than the loss, enter the unrecognized gain. Use Part I for a loss on the disposition of one or more positions that are part of a mixed straddle and that are non-section 1256 positions if the disposition of no non-section 1256 position in the straddle would be a long-term capital gain or loss, and the disposition of one or more section 1256 positions in the straddle would be a capital gain or loss.

(c) Enter the regulated futures part of a hedging transaction.

Part II

Attach a separate schedule listing each straddle and its component positions.

Use section A for losses from positions that are part of a straddle. A loss is allowed only to the extent it exceeds the unrecognized gain on offsetting positions. The part of the loss not allowed is treated as if incurred in the following year.

Use section B for gains from positions that are part of a straddle.

Do not include in Part II dispositions of one or more positions that are part of a hedging transaction, a disposition of a loss position included in an identified straddle or a mixed straddle account, and disposition of a position that is part of a straddle if all the positions of the straddle are section 1256 contracts.

Straddle.—A straddle means offsetting positions with respect to personal property.

Offsetting positions.—If there is a substantial decrease in risk of loss to a taxpayer holding a position because that taxpayer or a related party also holds one or more other positions, then those positions are offsetting. If any position is not part of an identified straddle, such position can not be treated as offsetting any position that is part of an identified straddle.

For further information concerning exceptions, definitions, related parties, flow through entities, and specific rules as to the tax treatment of gains and losses from straddles, see section 1092 and Regulation sections 1.1092(b)-1T and 5T.

Column a.—Enter the personal property, delivery date, and indicate whether the property is a long or short position.

Column b.—Enter the date you entered into or acquired the position.

Column c.—Enter the date you closed out or sold the position.

Columns d and e.—For positions sold or closed out, enter the sales price or closing price in column d, and the cost or other basis plus commissions paid in column e. Include in column e interest and carrying charges properly allocable to personal property that is part of a straddle. You cannot deduct these expenses. See section 263(g) for definition of interest and carrying charges.

Section A, column f.—Include in this column any loss not allowed in the prior year to the extent of the unrecognized gain.

Section A, column g.—Enter the unrecognized gain on positions offsetting those in columns a through f. Figure this column by subtracting the cost or other basis of the offsetting position from the settlement price of that position as of the close of the last business day of your 1985 tax year. Do not enter less than zero.

Lines 11 and 13.—Separate recognized gains and losses into short-term and long-term. Attach a separate schedule. For the holding period for straddle positions, see Regulation section 1.1092(b)-2T.

Part III

Section 1092 contains a reporting requirement. You must complete Part III by listing each position (whether or not part of a straddle) that you held at the end of the tax year (including any position you are treated as holding because it is held by a related party) if the settlement price of the position at such time exceeds your cost or other basis as adjusted.

Do not include the following in Part III:

- Positions that are part of an identified straddle;
- Property that is stock in trade or inventory;
- Positions that are part of a hedging transaction;
- Property used in a trade or business subject to depreciation.

If you do not have a loss on any position (including a regulated futures contract) for the entire tax year, or your only loss was on a position listed above, do not complete this part.

Form **7004**
(Rev. October 1985)
Department of the Treasury
Internal Revenue Service

Application for Automatic Extension of Time To File Corporation Income Tax Return

OMB No. 1545-0233
Expires 10-31-87

Name of corporation

Employer identification number

Number and street

City or town, state, and ZIP code

Check type of return to be filed:

☐ Form 1120 ☐ Form 1120-FSC ☐ Form 990-C ☐ Other (specify) ....
☐ Form 1120-A ☐ Form 1120S ☐ Form 990-T
☐ Form 1120F (Check here ▶ ☐ if you do not have an office or place of business in the U.S.)

1 a I request an automatic 6-month extension of time until ...., 19......., to file the income tax return of the corporation named above for calendar year 19 ...., or tax year ending ...., 19.......

b If this tax year is for less than 12 months, check reason:

☐ Initial return ☐ Final return ☐ Change in accounting period approved ☐ Consolidated return to be filed

2 Does this application also cover subsidiaries to be included in a consolidated return? . . . . ☐ Yes ☐ No
If "Yes," attach a list showing the name, address, and the employer identification number (EIN) of each member of the affiliated group.

3 Tentative tax (see instructions)			
4 **Credits: a** Overpayment from prior year allowed as a credit			▨
b Estimated tax payments (deposits) for the tax year		▨	▨
c Less refund of estimated tax for the tax year applied for on Form 4466 . . .			▨
d Credit from regulated investment companies and credit for overpaid windfall profit tax			▨
e Credit for Federal tax on gasoline and special fuels			▨
5 Total—Add lines 4a through 4e			
6 **Balance due**—Subtract line 5 from line 3. This amount should be deposited with a Federal Tax Deposit (FTD) Coupon . .			

Signature.—Under penalties of perjury, I declare that I have been authorized by the above-named corporation to make this application and that to the best of my knowledge and belief the statements made are true, correct, and complete.

.... (Signature of officer or agent) .... (Title) .... (Date)

General Instructions

(Section references are to the Internal Revenue Code, unless otherwise noted.)

A. Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

B. Purpose of Form.—Form 7004 should be used by a corporation to request an automatic 6-month extension of time to file its income tax return.

The extension will be allowed if Form 7004 is filed properly by the due date and if the balance due on line 6 is deposited with a FTD Coupon contained in FTD Coupon Book **(Form 8109)**.

Foreign corporations with an office or place of business in the United States and electing under Regulations section 1.6081-2(a), which provides an automatic 3-month extension of time to file, are not to use Form 7004. If a 6-month extension is anticipated, these corporations should file Form 7004 by the 15th day of the 3rd month following the close of the tax year.

However, this extension does not extend the time for payment of tax.

C. When and Where to File.—File Form 7004 by the due date of the return with the Internal Revenue Service Center where the corporation will file the return.

D. Penalty for Not Paying Tax.—Section 6651 provides a penalty for not paying tax (other than estimated income tax) when due.

The late payment penalty is ½% a month or part of a month unless you have reasonable cause for not paying on time. If you believe you have reasonable cause, attach an explanation to your return.

If you are allowed an extension of time to file, you will not be charged a late payment penalty if: the tax shown on line 3 (or the amount of tax paid by the regular due date of the return) is at least 90% of the tax shown on line 31 of Form 1120, or the comparable line on other returns; and you pay the balance due shown on the return by the extended due date.

E. Termination of Extension.—The IRS may terminate the automatic extension at any time by mailing a notice of termination to the corporation or to the person who requested the extension. The notice will be mailed at least 10 days before the termination date given in the notice.

Specific Instructions

Line 3—Tentative tax.—Enter the tentative amount of income tax for the year, reduced by any nonrefundable credits against the tax. This will usually be the tax shown on Form 1120, line 31, or the comparable line from other returns.

Line 6—Balance due.—This is the amount of tax you are required to deposit. Foreign corporations with an office or place of business in the United States and domestic corporations must deposit all income tax payments with a FTD Coupon.

However, if the corporation expects to have a net operating loss carryback, the corporation may reduce the amount to be deposited to the extent of the overpayment resulting from the carryback, providing all other prior year tax liabilities have been fully paid and a **Form 1138**, Extension of Time for Payment of Taxes by a Corporation Expecting a Net Operating Loss Carryback, accompanies Form 7004. See Rev. Rul. 82-47, 1982-1 C.B. 201 for details.

Interest will be charged on any part of the final tax due not shown on line 6. The interest is figured from the original due date of the return to the date of payment.

Signature.—The person authorized by the corporation to sign the return should sign the Form 7004. This person may be:

(1) An officer of the corporation.

(2) A duly authorized agent holding a power of attorney.

(3) A person currently enrolled to practice before the Internal Revenue Service.

(4) An attorney or certified public accountant qualified to practice before the IRS.

Form **8027**

Department of the Treasury
Internal Revenue Service

Employer's Annual Information Return of Tip Income and Allocated Tips

▶ **For Paperwork Reduction Act Notice, see the separate instructions.**

OMB No. 1545-0714

1985

Use IRS label. Make any necessary changes. Otherwise, please type or print. ▶

Name of establishment

Address (number and street)

Employer identification number

City, State, and ZIP code

Kind of establishment (check only one box)

☐ 1 evening meals only
☐ 2 evening and other meals
☐ 3 meals other than evening meals
☐ 4 alcoholic beverages

Employer's name

Establishment number

Address (number and street)

City, State, and ZIP code

1 Total charged tips for 1985	1		
2 Total charge receipts (other than nonallocable receipts) on which there were charged tips	2		
3 Total amount of service charges of less than 10% paid as wages to employees	3		
4 a Total tips reported by indirectly tipped employees	4a		
b Total tips reported by directly tipped employees	4b		
c Total tips reported. (Add lines 4a and 4b.)	4c		
5 Gross receipts from food or beverage operations (other than nonallocable receipts)	5		
6 Multiply line 5 by 8% (.08) or the lower rate shown here ▶ ________ granted by the District Director **Note:** *If you have allocated tips using other than the calendar year, put an X on line 6 and enter the amount of allocated tips from your records on line 7. If you have been granted a rate lower than 8%, attach a copy of the District Director's determination letter to this return.*	6		
7 Allocation of tips. If line 6 is more than line 4c, enter the difference here This amount must be allocated as tips to tipped employees working in this establishment. Check the box below that shows the method used for the allocation. (Show the portion, if any, attributable to each employee in box 6 of the employee's Form W-2.)	7		
a Allocation based on hours worked ☐			
b Allocation based on gross receipts ☐			
c Allocation based on good faith agreement (attach copy of agreement) ☐			
8 Total number of directly tipped employees at this establishment during 1985	8		

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct, and complete.

Signature ▶ **Title** ▶ **Date** ▶

1985

Department of the Treasury
Internal Revenue Service

Instructions for Form 8027

Employer's Annual Information Return of Tip Income and Allocated Tips

General Instructions

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Purpose of Form.—Large food or beverage establishments are required to make annual reports to the Internal Revenue Service concerning receipts from food or beverage operations and tips reported by employees. In certain circumstances, the employer is required to allocate amounts as tips to employees. **Publication 539,** Employment Taxes, explains how this law works and provides guidance on how to figure the tip allocation. It is available at most IRS offices.

Who Must File.—Every employer must file a separate Form 8027, Employer's Annual Information Return of Tip Income and Allocated Tips, each year for each large food or beverage establishment. A large food or beverage establishment is an establishment, where tipping is customary, that normally employed more than 10 employees (counting all the employer's employees at all locations) on a typical business day during the preceding calendar year. An individual who owns 50% or more in value of the stock of a corporation operating the establishment is not considered an employee in determining whether the establishment normally employed more than 10 employees.

An employer must file Form 8027 for a new large food or beverage establishment if during any 2 consecutive calendar months the average number of hours worked each business day by all employees at the new business is more than 80 hours. To figure the average number of employee hours worked each business day during a month, divide the total hours all employees worked during the month by the number of days the establishment was open for business. After the test is met for 2 consecutive months, a return is required covering the first payroll period that begins at that point and runs to the end of the year.

A return is required only for establishments in the 50 states and the District of Columbia. A return is not required for establishments operated for less than one month in any calendar year.

Since tipping is not customary at cafeterias or fast food operations, a return is not required for these establishments.

When to File.—File Form 8027 by February 28, 1986. (Also file transmittal Form 8027-T if you are required to report for more than one establishment.)

Where to File.—File with the Internal Revenue Service Center, Andover, MA 05501.

Period Covered.—The period covered is calendar year 1985. The employer must report:

- total charged tips,
- total charged receipts on which there were charged tips,
- total amount of service charges of less than 10% paid as wages to employees,
- total tips reported by employees,
- gross receipts from food or beverage operations, and
- total allocated tips to employees if total amount of reported tips is less than 8% of gross receipts.

Allocation of Tips.—An employer must allocate tips among employees who receive tips only if the total tips reported to the employer during any payroll period are less than 8 percent of the employer's gross receipts for that period. Generally, the amount allocated is the difference between the total tips reported by employees and 8 percent of the gross receipts, other than nonallocable receipts. Nonallocable receipts are receipts for carryout sales and receipts with a service charge added of 10 percent or more. The amount allocated is for information purposes only and employers should not withhold income or social security taxes on that amount.

The allocation can be made under a good faith agreement or by using the methods described later.

Note: *A payroll period may be a calendar year or any reasonable division of a calendar year.*

A good faith agreement is a written agreement between the employer and at least two-thirds of the employees of each occupational category of employees who receive tips (e.g., waiters and waitresses, busboys, maitre d's) working in the establishment when the agreement is adopted. The agreement must:

1. Provide for an allocation of the difference between total tips reported and 8 percent of gross receipts among employees who receive tips that approximates the actual distribution of tip income among the employees.
2. Be effective with the first day of a payroll period that begins after the date of adoption, but no later than January 1 of the next year.
3. Be adopted when there are employees in each occupational category who would be affected by the agreement. AND
4. Allow for revocation by a written agreement adopted by at least two-thirds of the employees in occupational categories affected by the agreement when it is revoked. The revocation is effective only at the beginning of a payroll period.

If no good faith agreement applies to the payroll period, the employer must allocate the difference between total tips reported and 8 percent of gross receipts using the following steps:

1. Multiply the establishment's gross receipts (other than receipts for carryout sales and receipts with a service charge added of 10 percent or more) for the payroll period by 8 percent (.08).

2. Subtract from this the total amount of tips reported by employees who were tipped indirectly for the payroll period. This difference is the directly tipped employee's total share of 8 percent of the gross receipts of the establishment. Indirectly tipped employees do not receive tips directly from customers. Examples are busboys, service bartenders, and cooks. Directly tipped employees, such as waiters, waitresses, and bartenders, receive tips directly from customers. Employees who receive tips directly from customers and indirectly through tip splitting or pooling, such as maitre d's, are treated as directly tipped employees.

3. For each employee who is tipped directly, multiply the result in step 2 by the following fraction: the numerator (top number) is the amount of the establishment's gross receipts attributable to the employee and the denominator (bottom number) is the gross receipts attributable to all employees who are directly tipped. This result is each directly tipped employee's share of 8 percent of the gross receipts for the payroll period.

The employer may substitute for the fraction described above the number of hours worked by each employee who is tipped directly and the total number of hours worked by all employees who are directly tipped for the payroll period.

4. From each directly tipped employee's share of 8 percent of the gross receipts figured above, subtract the tips which that employee reported for the payroll period. The result is each directly tipped employee's shortfall (if any) for the period.

5. From the amount figured in step 1 (8 percent of the gross receipts), subtract the total tips reported by both directly and indirectly tipped employees. The result is the amount that has to be allocated among the directly tipped employees who had a shortfall for the payroll period as figured in step 4.

6. For each directly tipped employee who had a shortfall for the period as figured in step 4, multiply the amount in step 5 by the following fraction: the numerator is the employee's shortfall (figured in step 4) and the denominator is the total shortfall of all directly tipped employees.

Example: A large food or beverage establishment has gross receipts for a payroll period of $100,000 and has tips reported for the payroll period of $6,200. Directly tipped employees reported $5,700, while indirectly tipped employees reported $500.

Directly tipped employees	Gross receipts for payroll period	Tips reported
A	$18,000	$1,080
B	16,000	880
C	23,000	1,810
D	17,000	800
E	12,000	450
F	14,000	680
	$100,000	$5,700

The allocation, figured using Steps 1 through 6, would be as follows:

(1) $100,000 (gross receipts) X .08 =$8,000

(2) $8,000 - $500 (tips reported by indirectly tipped employees) = $7,500

(3)

Directly tipped employees	Directly tipped employee's share of 8% of the gross		Gross receipts ratio		Employee's share of 8% of gross
A	$7,500	X	18,000/100,000	=	$1,350
B	7,500	X	16,000/100,000	=	1,200
C	7,500	X	23,000/100,000	=	1,725
D	7,500	X	17,000/100,000	=	1,275
E	7,500	X	12,000/100,000	=	900
F	7,500	X	14,000/100,000	=	1,050
					$7,500

(4)

Directly tipped employees	Employee's share of 8% of the gross		Tips reported		Employee shortfall
A	$1,350	-	$1,080	=	$270
B	1,200	-	880	=	320
C	1,725	-	1,810	=	—
D	1,275	-	800	=	475
E	900	-	450	=	450
F	1,050	-	680	=	370
			Total shortfall		$1,885

(5) $8,000 - 6,200 (total tips reported) = $1,800 (amount allocable among employees who had a shortfall)

(6)

Shortfall employees	Allocable amount		Shortfall ratio		Amount of allocation
A	$1,800	X	270/1,885	=	$258
B	1,800	X	320/1,885	=	306
D	1,800	X	475/1,885	=	454
E	1,800	X	450/1,885	=	430
F	1,800	X	370/1,885	=	353

Since employee C has no shortfall, there is no allocation to C.

Note: *The total amount of allocation is $1,801 because of rounding to whole numbers in this example.*

If employers who make allocations among employees follow a good faith agreement or the method described above, they are not liable to any employee if any amount is improperly allocated. However, if the allocation shown on the employee's Form W-2 varies from the correct allocation by more than 5 percent, the employer must adjust that employee's allocation and must review the allocable amount of all other employees in the same establishment to assure that the error did not distort any other employee's share by more than 5 percent. Tip allocations have no effect on withholding income or social security tax from employees' wages. Allocated tips are not subject to withholding and are not to be included in box 10, Wages, tips, other compensation, of Form W-2.

You do not have to send to IRS separate copies of Forms W-2 showing allocated tips. IRS will use the information shown on the Forms W-2 that you file with the Social Security Data Operations Centers.

Reporting Allocated Tips to Employees.—Give to each employee to whom an amount has been allocated as tips a Form W-2 that shows the allocated amount in box 6. Give the W-2 to the employee no later than January 31 of the following year. If employment ends before the end of the year and the employee asks for the W-2, a tip allocation is not required on the early W-2. However, the employer may include on the early W-2 the employee's actual tip allocation or a good faith estimate of the allocation. Signify a good faith estimate by putting the word "estimate" next to the allocated amount in box 6 of the W-2. If no allocation was shown on the early W-2 or if the estimated allocation on the early W-2 varies from the actual amount by more than 5 percent, give an amended W-2 to the employee during January of the next year.

Specific Instructions

File a separate Form 8027 for each large food or beverage establishment.

Name and address of establishment and employer identification number (EIN).—Please use the label provided. Make any corrections on the label. If you do not have one, please type or print the name and address of the establishment. They may be different from the employer's name and address, as in the case of employers who have more than one establishment. The employer identification number should be the same as the number used by the employer on the Forms W-2 given to the employees and the Form 941 or Form 941E the employer files reporting wages and taxes for employees working for the establishment.

Kind of establishment.—Check only one box. Check the box on the form that describes the food or beverage operation at this establishment as described below.

- 1 an establishment that serves evening meals only (with or without alcoholic beverages).
- 2 an establishment that serves evening and other meals (with or without alcoholic beverages).
- 3 an establishment that serves only meals other than evening meals (with or without alcoholic beverages).
- 4 an establishment that serves food, if at all, only as an incidental part of the business of serving alcoholic beverages.

Employer's name and address. —Enter the name and address of the employer.

Establishment number.—Enter a five-digit number to identify the individual establishments of an employer reporting under the same EIN. Number the various establishments each with a unique number. For example, each establishment could be numbered consecutively, starting with 00001, until each establishment for which the employer is required to file a return has a number.

Line-by-Line Instructions

Line 1—Total charged tips for 1985.—Write the total amount of tips that are shown on charge receipts for the year.

Line 2—Total charge receipts on which there were charged tips.—Show the total sales other than carryout sales or sales with an added service charge of 10 percent or more that are on charge receipts that had a charged tip shown. Include credit card charges and other credit arrangements and charges to a hotel room unless the employer's normal accounting practice consistently excludes charges to a hotel room. Do not include any state or local taxes in the amounts reported.

Line 3—Total of service charges of less than 10 percent paid as wages to employees.—Report the total amount of service charges of less than 10 percent that have been added to customer's bills and have been distributed to your employees for the year. In general, service charges added to the bill are not tips since the customer does not have a choice. These service charges are treated as wages and are includible on Form W-2. For a more detailed explanation, see Revenue Ruling 69-28, which is in the Internal Revenue Cumulative Bulletin 1969-1, starting on page 270.

Line 4a—Total tips reported by indirectly tipped employees.—Use line 4a to report the total amount of tips reported for the year by indirectly tipped employees, such as busboys and cooks.

Line 4b—Total tips reported by directly tipped employees.—Write the total amount of tips reported for the year by directly tipped employees, such as waiters and waitresses.

Line 4c—Total tips reported.—Add lines 4a and 4b.

Caution: Do not include tips received by employees in December 1984 but not reported until January 1985. However, include tips received by employees in December 1985 but not reported until January 1986.

Line 5—Gross receipts from food and beverage operations (other than nonallocable receipts).—Report the total gross receipts from the provision of food or beverages for this establishment for the year. Gross receipts include all receipts (other than receipts for carryout sales or sales with an added service charge of 10 percent or more) from cash sales, charge receipts, charges to a hotel room (excluding tips charged to the hotel room if the employer's accounting procedures allow such tips to be segregated out), and the retail value of complimentary food or beverages served to customers as explained below. Do not include state or local taxes in gross receipts.

If you do not charge separately for providing food or beverages along with other goods or services (such as a package deal for food and lodging), make a good faith estimate of the gross receipts from the food or beverages. This estimate must reflect the cost to the employer for providing the food or beverage plus a reasonable profit factor.

Food or beverages served to customers without charge are complimentary if (a) tipping for providing them is customary at the establishment, and (b) they are provided in connection with an activity that is engaged in for profit and whose receipts would not be included in line 5. For example, you would not have to include the retail value of complimentary hors d'oeuvres at your bar or a complimentary dessert served to a regular patron of your restaurant because the receipts of the bar or restaurant would be included in line 5. You would not have to include the value of a fruit basket placed in a hotel room since generally tipping for it is not customary. However, drinks served without charge to customers in a gambling casino are complimentary. You would have to include the retail value of the complimentary drinks served to customers in a gambling casino because tipping is customary, the gambling casino is an activity engaged in for profit, and the gambling receipts of the casino are not included in line 5.

Do not include in gross receipts charged tips shown on charged sales unless you have reduced the cash sales amount because you have paid cash to tipped employees for tips they earned that were charged.

Line 6.—Multiply line 5 by 8% (.08) or the lower rate granted by the District Director and enter this result on line 6.

If a lower percentage rate has been granted, write the rate on the line provided and attach a copy of the District Director's determination letter.

You or a majority of the employees may request a lower rate (but not lower than 2 percent) by applying to the District Director for the district in which the establishment is located. The burden of supplying sufficient information to allow the District Director to estimate with reasonable accuracy the actual tip rate of the establishment rests with the petitioner. The employer's petition for a lower rate must clearly demonstrate that a rate less than 8 percent should apply and must include:

(a) the employer's name, address, and EIN;

(b) the establishment's name, address, and establishment number;

(c) a detailed description of the establishment which would help in determining the tip rate, such as type of restaurant, days and hours of operation, type of service including any self-service, to whom the customer pays the check and when the check is paid, whether alcohol is available;

(d) the past year's information shown on lines 1 through 6 of Form 8027, as well as total carryout sales, total charge sales, the percentage of sales for breakfast, lunch, and dinner, average dollar amount of a guest check, service charge if any added to the check, and the percentage of sales with a service charge;

(e) the type of clientele; and

(f) copy of a representative menu for each meal.

Employers are required to attach copies of Form 8027 (if any) filed for the prior three years to their petition. The petition must contain the following statement and be signed by a responsible person who is duly authorized to make and sign a return, statement, or other document.

> "Under penalties of perjury, I declare that I have examined this application, including accompanying documents, and to the best of my knowledge and belief, the facts presented in support of this application are true, correct, and complete."

Employers petitioning for multiple establishments or those who want to know their appeal rights should see Revenue Procedure 85-4 in the Internal Revenue Bulletin 1985-4, starting on page 36.

A majority of employees means more than half of all the directly tipped employees employed at the establishment(s) at the time the petition is filed. Procedures that employee groups must use are in section 31.6053-3T(h) of the regulations and are explained in **Publication 531**, Reporting Income from Tips.

The District Director will notify you when and for how long the reduced rate is effective.

Note: *If you have allocated tips using other than the calendar year, put an X on line 6 and enter the amount of allocated tips (if any) from your records on line 7. This may occur if you allocated tips based on the time period for which wages were paid or allocated on a quarterly basis.*

Line 7—Allocation of tips.—If eight percent (or lower rate granted by the District Director) of gross receipts (line 6) is more than the amount of tips reported by your employees (line 4c), you must allocate the difference to those employees. See the example on page 2, especially Step 6, for employees who have no reporting shortfall.

Check the box that describes the allocation method used. If you allocated based on hours worked by directly tipped employees, check Box a. Substitute the number of hours worked by directly tipped employees for the gross receipts attributable to directly tipped employees in Step 3 of the allocation formula that starts on page 1.

If you allocated based on gross receipts, check Box b. Gross receipts attributable to a directly tipped employee are gross receipts from providing food or beverages to customers the employee served. One way to figure the gross receipts attributable to a directly tipped employee is to add the amounts of all checks with the employee's name or identification number (excluding from the total any checks for carryout sales or with a service charge added of 10 percent or more).

If you allocate based on a good faith agreement, check Box c and attach a copy of the agreement to Form 8027. The conditions that a good faith agreement must meet are explained under the heading "Allocation of Tips" on page 1.

Line 8—Total number of directly tipped employees.—Write the total number of directly tipped employees who worked at this establishment during 1985. This number is the cumulative total of all directly tipped employees who worked at the establishment during the year. If you have a large turnover of directly tipped employees, this number may be large.

Do not use this number to determine if you must file Form 8027. The filing requirement is based on the number of **all** employees working at the establishment, not just the number of directly tipped employees.

Form **8283**
(Rev. October 1985)
Department of the Treasury
Internal Revenue Service

Noncash Charitable Contributions

► **Attach to Your Federal Income Tax Return**

OMB No. 1545-0908
Expires 9-30-88
55

Name(s) as shown on your income tax return

Identification number

Section A.—Contribution of property if the total claimed value of all property contributed exceeds $500. *(If the value of one item or group of similar items, other than publicly traded stock, exceeds $5,000, complete only Section B for that property.)*

Part I Information on Donated Property

1	**(a)** Name and address of the donee organization	**(b)** Description of donated property (attach a separate sheet if more space is needed)
A		
B		
C		
D		
E		

	(c) Date of the contribution	**(d)** Date acquired by donor (mo., yr.)	**(e)** How acquired by donor	**(f)** Donor's cost or adjusted basis	**(g)** Fair market value	**(h)** Method used to determine the fair market value
A						
B						
C						
D						
E						

Part II Other Information—Complete questions 2 and 3 only if you gave less than the entire interest in property or if restrictions were attached to the contribution.

2 If less than the entire interest in the property is contributed during the year, complete the following:

(a) Total amount claimed as a deduction for the property listed in Part I for this tax year ____________________ ; for any prior tax year(s) ____________________ .

(b) Name and address of each organization to which any such contribution was made in a prior year (complete only if different from the donee organization above).

Charitable organization (Donee) name

Number and street

City or town, state, and ZIP code

(c) The place where any tangible property is located or kept. ____________________

(d) Name of any person, other than the donee organization, having actual possession of the property. ____________________

	Yes	No
3 If conditions were attached to the contribution, answer the following questions:		
(a) Is there a restriction either temporarily or permanently on the donee's right to use or dispose of the donated property? .		
(b) Did you give to anyone (other than the donee organization or another organization participating with the donee organization in cooperative fundraising) the right to the income from the donated property or to the possession of the property, including the right to vote donated securities, to acquire the property by purchase or otherwise, or to designate the person having such income, possession, or right to acquire?		
(c) Is there a restriction limiting the donated property for a particular use?		

For Paperwork Reduction Act Notice, see separate instructions.

Form **8283** (Rev. 10-85)

Name(s) as shown on your income tax return (Do not enter name and identification number if shown on the other side.)	**Identification Number**

Section B.—Appraisal Summary—Contribution of property if the claimed value of one item or group of similar items exceeds $5,000. *(Report contributions of publicly traded stock only in Section A.)*

Part I Donee Acknowledgement *(To be completed by the charitable organization)*

1 This charitable organization acknowledges that it is a qualified organization under section 170(c) and that it received the donated property as described in Part II on ______________________ (Date).

Furthermore, this organization affirms that in the event it sells, exchanges, or otherwise disposes of the property (or any portion thereof) within two years after the date of receipt, it will file an information return (**Form 8282,** Donee Information Return) with the IRS and furnish the donor a copy of that return. This acknowledgement does not represent concurrence in the claimed fair market value.

Charitable organization (Donee) name	Employer identification number
Number and street	▨
City or town, state, and ZIP code	▨

Authorized signature | Title | Date

Part II Information on Donated Property *(To be completed by the taxpayer and/or appraiser)*

2	**(a)** Description of donated property (attach a separate sheet if more space is needed)	**(b)** Date acquired by donor (mo., yr.)	**(c)** How acquired by donor	**(d)** Donor's cost or adjusted basis	**(e)** Appraised fair market value

3 If tangible property was donated, a brief summary of the overall physical condition of the property at the time of the gift.

Part III Certification of Appraiser *(To be completed by the appraiser of the above donated property)*

I declare that I am not the donor, the donee, a party to the transaction in which the donor acquired the property, employed by or related to any of the foregoing persons, or a person whose relationship to any of the foregoing persons would cause a reasonable person to question my independence as an appraiser.

Also, I declare that I hold myself out to the public as an appraiser and that because of my qualifications as described in the appraisal, I am qualified to make appraisals of the type of property being valued. I certify the appraisal fees were not based upon a percentage of the appraised property value. Furthermore, I understand that a false or fraudulent overstatement of the property value as described in the qualified appraisal or this appraisal summary may subject me to the civil penalty under section 6701(a) (aiding and abetting the understatement of tax liability). I affirm that I have not been barred from presenting evidence or testimony by the Director of Practice.

Please Sign Here Signature ▶ Title ▶ Date ▶

Business address	Identification number
City or town, state, and ZIP code	

Department of the Treasury
Internal Revenue Service

Instructions for Form 8283

(Revised October 1985)

Noncash Charitable Contributions

(Section references are to the Internal Revenue Code, unless otherwise noted.)

General Instructions

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Purpose of Form

You must attach Form 8283 to your return if you claim a deduction for a charitable contribution of property other than cash if the total claimed value of all property contributed exceeds $500. Depending on the value and type of property, you may need to complete Section A, Section B, or both.

Who Must File

- Individuals.
- Closely held corporations.
- Personal service corporations.
- Partnerships.
- S corporations.

When to File

File this form with your tax return for the tax year in which you contributed the property and first deducted it on your return.

Specific Instructions

Identification Number.—Individuals must enter their social security number; all others should enter their employer identification number.

Section A

If you are required to file Form 8283, as explained under **Purpose of Form**, complete Section A for contributions of property with a claimed value of $5,000 or less, or publicly traded stock. If the value of any item, or group of similar items (other than publicly traded stock), is more than $5,000, complete only Section B for that item(s). Contributions of publicly traded stock should be reported in Section A only.

Partnerships and S corporations.—A partnership (S corporation) that makes contributions of property with a claimed fair market value over $500 must file Form 8283 with its tax return. However, it does not have to provide a copy of this form to the partners (shareholders) unless the fair market value of any item or group of similar items exceeds $5,000. For contributions of property over $5,000, see the **Note** under **Section B** for additional information.

Partners and Shareholders.—The partnership (S corporation) must provide you with additional information with your **Schedule K-1 (Form 1065** or **Form 1120S)** showing your share of the fair market value of contributed property. Combine this amount with any noncash contributions which you made to see if you must file Form 8283.

You do not have to provide all the information requested in Section A for your share of the partnership (S corporation) contributions not in excess of $5,000. Do not complete line 1, columns (a)-(f) and (h). Instead, write "From Schedule K-1 (Form 1065 or Form 1120S)" across columns (c)-(f). You must enter your share of the claimed fair market value on line 1, column (g).

Part I, Information on Donated Property

Line 1, column (a).—Enter the name and address of the donee organization to which the property was contributed.

Line 1, column (b).—Describe the property in reasonably sufficient detail. The greater the value of the property the more detail is needed, for example, a car should be described in greater detail than a contribution of pots and pans to a donee organization.

For securities, the description should include:

- name of the issuer;
- kind of security; and
- whether or not the security is regularly traded on a stock exchange or in an over-the-counter market.

Line 1, column (d).—Enter the approximate date you acquired the property. If the property was created, produced, or manufactured by or for you, enter the date the property was substantially completed.

Line 1, column (e).—State how you acquired the property, i.e. by purchase, gift, inheritance, or exchange.

Line 1, column (f).—Complete this column, cost or adjusted basis, for all property except:

- Publicly traded stock; or
- Property held six months or more for which the information is not available.

You are required to reduce the fair market value of the property by any ordinary income or capital gain that would have occurred if the property had been sold at its fair market value at the time of the contribution, or, if the property is tangible personal property, it is put to an unrelated use by the charity. (See the instructions for column (g).)

If you do not have to complete column (f), be sure to keep your records regarding the property's cost or other basis.

Note: *If you have reasonable cause for not providing the acquisition date in column (d) or the cost basis when required in column (f), attach an explanation.*

Line 1, column (g).—Enter the fair market value of the property on the date you contributed it. The fair market value is the price a willing buyer would pay a willing seller when neither has to buy or sell and both are aware of the conditions of the sale. If you donate property, other than publicly traded stock, with a fair market value that is more than your basis in it, you may have to reduce the fair market value by all or part of the increase in value when you figure your deduction. The amount of the reduction depends on whether the property is ordinary income property or capital gain property.

Property is ordinary income property if its sale on the date it was contributed would have resulted in ordinary income or in short-term capital gain. Examples of ordinary income property are inventory, works of art created by the donor, manuscripts prepared by the donor, and capital assets held for six months or less (one year or less if acquired before June 23, 1984). The deduction for a gift of ordinary income property is limited to the fair market value less the amount that would be ordinary income if the property were sold at its fair market value.

Capital gain property is property that would result in long-term capital gain if it were sold at its fair market value on the date of contribution. It includes certain real property and depreciable property used in your trade or business, and generally held for more than 6 months (one year for property acquired before June 23, 1984). You usually may deduct gifts of capital gain property at their fair market value. However, you must reduce the fair market value by 40% of the appreciation if: the capital gain property is contributed to certain private nonoperating foundations; you choose the 50% limit instead of the special 30% limit; or the contributed property is tangible personal property that is put to an unrelated use by the charity.

Attach a computation showing your reduction to the fair market value. For more information, get **Publication 526**, Charitable Contributions. If you contribute depreciable property, also get **Publication 544**, Sales and Other Dispositions of Assets.

If your donation qualifies as a "qualified conservation contribution" under section 170(h), attach a statement that shows the claimed fair market value of the underlying property before and after the gift and the conservation purpose furthered by the gift.

For additional information, see Publication 526.

Line 1, column (h).—Enter the method(s) you used to determine the fair market value of your donation. The fair market value of used household goods and clothing is usually much lower than the price paid when new. For this reason, standard formulas or methods to value this kind of property are generally not appropriate. A good measure of value for this kind of property might be the price that buyers of these used items actually pay in consignment or thrift shops.

If household items are valuable because of their age or uniqueness or for clothing such as furs or very expensive gowns, a written appraisal from a qualified and reputable source might be appropriate.

Other items which lend themselves to appraisals are jewelry and gems (other than "costume" jewelry), paintings, antiques, and real estate.

For hobby collections, indicators of fair market value are trade publications, catalogs, dealers' price lists, and specialized hobby periodicals. However, these sources are not always reliable. For example, a dealer may sell an item for much less than shown on a price list. If you are donating a valuable collection, you should get an appraisal.

For vehicles, certain commercial firms and trade organizations publish dealer sales prices or dealer-average prices. These prices are not "official" and are not considered an appraisal. However, they do provide a suggested price for comparison with current sales and offerings in your area.

Examples of entries to make in this column include:

- "Appraisal."
- "Thrift Shop Value" (for clothing or household goods).
- "Catalog" (for stamp or coin collections, etc.).
- "Comparable Sales" (for real estate and other kinds of assets).

See **Publication 561**, Determining the Value of Donated Property, for more information on methods of valuing different kinds of property.

Part II, Other Information

Attach a separate statement if there is more than one property to which Part II applies. Give the information which the form requires for each property separately.

Line 2.—Complete lines 2(a)–2(d) only if you contributed less than the entire interest in the donated property during the tax year. Enter on line 2(a) the amount claimed as a deduction for this year and in any earlier tax years for gifts of a partial interest in the same property. If the organization that received the prior interest in the property is the same as the one listed on line 1 column (a), you do not have to complete line 2(b). Enter the name and address of the organization only if it is different from the one entered in Part I.

If the donated property is tangible property, state on line 2(c) where it is located. If any person other than the donee organization has possession of the donated property, include the name of the person on line 2(d).

Line 3.—Complete lines 3(a)–3(c) only if you attached restrictions to the right to the income, use, or disposition of the donated property. Check the appropriate "yes/no" block. Attach a statement explaining:

- The terms of any agreement or understanding that relates to the income, use, sale, or other disposition of the property; and
- Whether the property is designated for a particular use; e.g., the use of donated furniture in the reading room of the organization's library.

Section B

Complete only Section B for an item of property (or group of similar items) whose total claimed value exceeds $5,000. An exception to this rule is publicly traded stock, which should be reported in Section A only. Also report only in Section A any other item(s) of property with a claimed value of $5,000 or less.

Note: *A partnership or S corporation must attach Form 8283, Section B, to its Form 1065 (or Form 1120S) if such charitable contributions allocated to all the partners (or shareholders) are greater than $5,000 even though the amount allocated to each individual partner (or shareholder) is $5,000 or less.*

In addition, the partnership (or S corporation) must give a copy of Form 8283 to every partner (or shareholder) who receives an allocation of a deduction for the charitable contribution of property shown in Section B.

The partner (or shareholder) must attach the copy of Form 8283 to the partner's (or shareholder's) tax return.

Caution: Partners (or shareholders) should deduct the amount shown on Schedule K-I (Form 1065 or Form 1120S), not the amount shown on Form 8283.

Failure to File Form 8283, Section B.—If you give property required to be reported in Section B and you fail to attach Form 8283 to your return, the deduction will not be allowed unless your failure was due to a good faith omission. If the IRS requests that you submit this form because you had not attached it to your return, you have 90 days to submit a completed Section B of Form 8283 before the charitable deduction is disallowed.

Part I, Donee Acknowledgement

The donee organization must complete Part I. Before submitting Form 8283 to the donee for acknowledgement, complete at least your name, identification number, and description of the donated property (line 2, column (a)). If tangible property is donated, you must also describe the physical condition of the property (line 3) at the time of the gift.

The person acknowledging the gift must be an official authorized to sign the tax returns of the organization, or a person specifically designated to sign Form 8283. After completing Part I, the organization must return Form 8283 to you, the donor. A copy of this form must be provided to the donee organization for its records. You may then complete any remaining information required in Part II. Also, Part III may be completed at this time by the qualified appraiser.

Note: *If the donee organization sells, exchanges, transfers, or otherwise disposes of the property within two years after the date of the receipt of the contribution, the organization must file an information return on **Form 8282**, Donee Information Return, with the IRS and send a copy to the donor.*

Part II, Information on Donated Property

The information provided in Part II must be based on a written appraisal by a qualified appraiser, unless the property donated is nonpublicly traded stock valued at $10,000 or less. Use Part II to summarize your appraisal or appraisals. You do not need to attach the appraisals, but you should keep them for your records.

The appraisal must be made not earlier than 60 days before the date you contribute the property and must be received before the due date (including extensions) of the return on which the deduction is first claimed. For a deduction first claimed on an amended return, the appraisal must be received before the date the amended return was filed.

A separate qualified appraisal and a separate Form 8283 is required for each item of property except for an item which is part of a group of similar items of property. Similar items of property are items of the same generic category or type, such as stamps, coins, lithographs, paintings, photographs, books, nonpublicly traded stock, land, or buildings. Only one qualified appraisal is required for a group of similar items of property contributed in the same tax year, provided the appraisal includes all the required information for each item.

The appraiser may select any items whose aggregate value is appraised at $100 or less for which a group description rather than a specific description of each item will suffice.

If similar items of property are given to more than one donee and the total is more than $5,000, a separate Form 8283 must be attached for each donee. For example, if you deduct $2,000 for books given to College A, and $2,500 for books given to College B, and $900 for books given to a public library, you must attach a separate Form 8283 for each donee.

See Temporary regulations section 1.170A-13T(c)(3)(i)-(ii) for a definition of a qualified appraisal and for information to be included in the appraisal.

Line 2.—In column (a) describe the property in enough detail so that a person who is not familiar with the type of property could determine that the property appraised is the property that was contributed.

Include in column (e) the fair market value from the qualified appraisal. For nonpublicly traded stock for which a qualified appraisal was not required, include the fair market value you determine to be correct.

If you have reasonable cause for being unable to provide the information for columns (b), (c), and (d), attach an appropriate explanation to Form 8283 to prevent your deduction from being automatically disallowed.

Part III, Certification of Appraiser

You must have an appraiser complete Part III for any property for which an appraisal is required. This section **MUST** be completed in order for the individual to be considered a qualified appraiser. See Temporary regulations section 1.170A-13T(c)(5) for a definition of a qualified appraiser.

Persons who cannot be qualified appraisers are listed in the Certification of Appraiser (Part III) of Form 8283. Usually, a party to the transaction will not qualify to sign the certification. However, a person who sold, exchanged, or gave the property to the donor may sign the certification if the property is donated within two months of the date the donor acquired it, and the property's appraised value does not exceed its acquisition price.

An appraiser may not be considered qualified if the donor had knowledge of facts which would cause a reasonable person to expect the appraiser to falsely overstate the value of the donated property. An indication that this is true is an agreement between the donor and the appraiser concerning the amount at which the property will be valued and such amount exceeds the fair market value of the property.

Usually, appraisal fees cannot be based on a percentage of the appraised property value, unless the fees were paid to certain not-for-profit associations. See Temporary regulations section 1.170A-13T(c)(6)(ii) for the requirements which have to be met.

Form **8300**
(Rev. January 1986)
Department of the Treasury
Internal Revenue Service

Report of Cash Payments Over $10,000 Received in a Trade or Business

OMB No. 1545-0892
Expires: 9-30-88

Proof as of Nov. 4
(Subject to change)

Part I Individual or Organization for Whom This Transaction Was Completed

Individual's last name		First name		M.I.	**Social security number**
Name of organization		Employer identification number		Passport number	Country
Number and street		Business or occupation		Alien registration number	Country
City	State	ZIP code	Country (if not U.S.)	Other identifying data (Specify)	

Part II Identity of Individual Conducting the Transaction (Complete only if an agent conducts a transaction for the person in Part I)

Last name		First name		M.I.	**Social security number**
Number and street		Passport number	Country	Alien registration number	Country
City	State	ZIP code	Country (if not U.S.)	Other identifying data (Specify)	

Part III Description of Transaction and Method of Payment

1 Amount of cash received $

2 Amount in item 1 in $100 bills $

3 Nature of transaction

Description of property or service

a ☐ personal property purchased . . . .

b ☐ real property purchased . . . . . .

c ☐ personal services provided . . . . . .

d ☐ business services provided . . . . . .

e ☐ intangible property purchased . . . . . .

f ☐ debt obligation paid . . . .

g ☐ exchange of cash . . . .

h ☐ escrow or trust funds . . . .

i ☐ other (specify) ▶

4 Method of payment by customer

a ☐ paid with U.S. currency or coin

b ☐ paid with foreign currency (describe) ....

5 Date paid

Part IV Business Reporting This Transaction

Name of reporting business			Identification number (EIN or SSN)
Street address			Nature of your business
City	State	ZIP code	

Under penalties of perjury, I declare that the information I have furnished above, to the best of my knowledge, is true, correct, and complete.

Sign Here ▶ ______________________ ______________________ ______________________
(Authorized Signature—See Instructions) (Title) (Date)

For Paperwork Reduction Act Notice, see page 2.

General Instructions

Paperwork Reduction Act Notice.—The Paperwork Reduction Act of 1980 says we must tell you why we are collecting this information, how we will use it, and whether you are required to provide it to us. The requested information is useful in criminal, tax, and regulatory investigations. In addition to directing the Federal Government's attention to unusual or questionable transactions, the reporting requirement discourages the use of currency in illegal transactions. Any person engaged in a trade or business is required to provide the information under Section 6050 I of the Internal Revenue Code.

Who Must File.—Each person engaged in a trade or business who, in the course of such trade or business, receives more than $10,000 in cash in one transaction, or two or more related transactions, must file Form 8300. Any transactions conducted between a payer (or its agent) and the recipient in a 24 hour period are related transactions, and must be aggregated and reported as a single transaction if the total amount exceeds $10,000.

Certain precious metals dealers, precious stones dealers, jewelry dealers, pawnbrokers, loan or finance companies, insurance companies and travel agencies are not excepted and must file Form 8300 when they have reportable cash transactions. To the extent that the Assistant Secretary of the Treasury (Enforcement and Operations) requires these financial institutions to file **Form 4789**, Currency Transaction Report, Form 8300 is not required to be filed for the same transaction(s).

Exceptions.—Financial institutions who are required to file IRS Form 4789 under Section 5312(a)(2)(A), (B), (C), (D), (E), (F), (G), (J), (K), (R), and (S) of Title 31, U.S.C., are excepted from filing Form 8300. These financial institutions include each agency, branch, or office in the United States of any person doing business in one or more of the capacities listed below:

(1) a bank (see Definitions);

(2) a broker or dealer in securities, registered or required to be registered with SEC under the Securities Exchange Act of 1934;

(3) a person who engages as a business in dealing in or exchanging currency (for example, a dealer in foreign exchange or a person engaged primarily in the cashing of checks);

(4) a person who engages as a business issuing, selling, or redeeming traveler's checks, money orders, or similar instruments, except one who does so as a selling agent exclusively, or as an incidental part of another business;

(5) a licensed transmitter of funds, or other person engaged in the business of transmitting funds abroad for others.

Transactions entirely occurring outside the United States are excepted from these reporting requirements, except to the extent regulations provide otherwise. The United States includes the 50 states and the District of Columbia.

When and Where to File.—File this form by the 15th day after the date of the transaction with the Internal Revenue Service Data Center, P.O. Box 32621, Detroit, MI 48232 ATTN: RCP or hand carry it to your local IRS office. Keep a copy of each Form 8300 for 5 years from the date you file it.

Identifying Number.—For individuals this is the social security number. For others it is the Federal employer identification number (EIN), which has 9 digits. For aliens or other non-U.S. individuals use the passport number or alien registration number and indicate the country.

Penalties.—Civil and criminal penalties are provided for failure to file a report or to supply information, and for filing a false or fraudulent report.

Statement to be provided.—A written statement must be provided to each person named in this form. The statement must be provided on or before January 31 of the year following the calendar year in which this report is made. The statement must show the name and address of the business receiving the cash and the total amount of cash received during the year from the payer and that the information is being furnished to the IRS. Keep a copy for your records. A copy of the Form 8300 that was filed with the Internal Revenue Service may be used as the statement if the payer had a single transaction for the year.

Specific Instructions

Part I

(1) For individuals, enter last name, first name, and middle initial, if any, in the name block in that order. For other than an individual, enter the complete organization name, address, and employer identification number in the boxes provided.

(2) In the social security block, enter the social security number of the individual conducting the transaction. If the individual has no number, write "None" in this block.

(3) If the individual is an alien or foreign national, enter the alien registration number or passport number and country or other official documents evidencing nationality or residence in the boxes provided.

(4) Complete the "Other identifying data" box for individuals other than aliens and foreign nationals. Other identifying information includes documents normally acceptable as a means of identification when cashing checks (e.g., a driver's license or credit card number may be entered in the "Other identifying data" box provided).

Part II

(1) In the address section, enter the permanent street address of the individual agent of the person in Part I conducting the transaction.

(2) In the social security block, enter the social security number of the individual conducting the transaction. If the individual has no number, write "None" in this block.

(3) If the individual is an alien or foreign national, enter the alien registration number or passport number and country or other official documents evidencing nationality or residence in the boxes provided.

(4) Complete the "Other identifying data" box for individuals other than aliens and foreign nationals. Other identifying information includes documents normally acceptable as a means of identification when cashing checks (e.g., a driver's license or credit card number may be entered in the "Other identifying data" box provided).

Part III

Enter in item 2 the amount of U.S. currency included in item 1 that is in $100 bills or higher. (For example, if the amount in item 1 is $30,000, and $25,000 of it was paid in $100 bills, enter $25,000 in item 2).

Check the applicable boxes that describe the nature of the transaction. Briefly describe the kind of property or service for which the customer paid cash.

If the aggregate amount of cash received in 2 or more installment payments exceeds $10,000, the date entered in item 5 should be the date the payment is made that causes the aggregate amount of cash to exceed $10,000.

Part IV

Signature.—This report must be signed by an authorized individual. Also type or print the name of the authorized signer below the signature.

Definitions

Bank.—Each agent, agency, branch, or office in the United States of a foreign bank and each agency, branch, or office in the United States of any person doing business in one or more of the capacities listed below:

(1) a commercial bank or trust company organized under the laws of any state or of the United States;

(2) a private bank;

(3) a savings and loan association or a building and loan association organized under the laws of any state or of the United States;

(4) an insured institution as defined in section 401 of the National Housing Act;

(5) a savings bank, industrial bank, or other thrift institution;

(6) a credit union organized under the laws of any state or of the United States; and

(7) any other organization chartered under the banking laws of any state and subject to the supervision of the bank supervisory authorities of a state.

Person.—An individual, corporation, partnership, trust or estate, joint stock company, association, syndicate, joint venture, or other unincorporated organization or group, and all entities treated as legal personalities, including organizations that are exempt from tax.

Cash.—The coin and currency of the United States or of any other country, which circulate in and are customarily used and accepted as money in the country in which issued. It includes United States silver certificates, United States notes, and Federal Reserve notes, but does not include bank checks, traveler's checks, or other negotiable or monetary instruments customarily accepted as money.

Transaction in Cash.—A transaction involving the physical receipt of cash from a person. A transaction in cash does not include a receipt of funds by means of bank check, bank draft, wire transfer, or other written order that does not include the physical transfer of cash.

Transaction.—The purchase of goods, services, personal or real property, and intangible property by a customer; a debt obligation paid for with cash; the receipt and conversion of cash to a negotiable instrument (for instance, a receipt of cash from a person in exchange for a check); and the receipt of cash to be held in escrow or trust.

Proof as of Nov 4
(Subject to change)

Form **8332**
(February 1985)
Department of the Treasury
Internal Revenue Service

Release of Claim to Exemption for Child of Divorced or Separated Parents

► **Attach to Tax Return of Parent Claiming Exemption**

OMB No. 1545-0915
Expires 2-29-88

Name(s) of parent claiming exemption as shown on tax return	**Social security number**

Part I Release of Claim to Exemption for Current Year

I agree not to claim an exemption for ______________________
Name(s) of child (or children)

for the calendar year 19 _____ .

Signature of parent releasing claim to exemption   Social security number   Date

If you choose not to claim an exemption for this child (or children) for future tax years, complete Part II, as explained in the instructions below.

Part II Release of Claim to Exemption for Future Years

I agree not to claim an exemption for ______________________
Name(s) of child (or children)

for tax year(s) ______________________
(Specify. See instructions.)

Signature of parent releasing claim to exemption   Social security number   Date

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Changes You Should Note.—Beginning in 1985, many of the rules for claiming a dependency exemption for a child of divorced or separated parents have changed. See the instructions below for details.

Purpose of Form.—This form may be used to release the claim to a child's exemption by a parent who has custody of his or her child and might have been entitled to claim the exemption for this child. This form is completed by the parent who has custody of the child and is given to the parent who will claim the exemption. The parent who will claim the child's exemption must attach this form, or a similiar statement, to his or her tax return. See **How to File Form 8332,** below.

Exemption for Child of Divorced or Separated Parents.—In general, the parent who has custody of the child (or children) for the greater part of the year is treated as having provided over half of the child's support for purposes of the dependency exemption for the child if:

1. The child receives over half of his or her support from both of the parents; **AND**

2. The child was in the custody of one or both of his or her parents for more than half of the year.

This general rule applies to parents who are divorced or legally separated under a decree of divorce or separate maintenance, separated under a written separation agreement, or who lived apart at all times during the last six months of the calendar year.

This general rule does not apply if **any** of the following apply:

(a) The parent having custody signs a written statement agreeing not to claim the child's exemption and the parent not having custody attaches this statement to his or her tax return for the tax year. (See **Parent Who Releases Claim to Exemption**, below.)

(b) The child is treated as having received over half of his or her support from a person under a multiple support agreement (**Form 2120,** Multiple Support Declaration).

(c) A qualified divorce decree or written agreement was in effect before January 1, 1985, and provides that the noncustodial parent can claim the exemption for the child, and the noncustodial parent provides at least $600 for the support of the child during the year.

Note: *If items (b) or (c) above do not apply, the noncustodial parent must attach a completed Form 8332, or similar statement, to his or her tax return for each year in which the noncustodial parent claims the child's exemption.*

Parent Who Releases Claim to Exemption.—A parent who might be entitled to claim the child's (or children's) exemption because of having custody of the child for a greater part of the calendar year, may agree to release claim to the child's exemption for the current calendar year or for future years, or both. The release can be made by completing Form 8332 or a similar statement.

Part I should be completed by the parent who chooses to release claim to the child's (or children's) exemption for the current calendar year.

Part II should be completed by the parent who chooses to release claim to the child's (or children's) exemption for a specified number of future years, or for all future years. If the parent is releasing claim for all future years, "all future years" should be written in the space provided for in Part II.

How to File Form 8332.—The noncustodial parent must attach Form 8332, or a similar statement, to his or her tax return for the tax year in which the noncustodial parent claims the child's exemption. If the parent having custody of the child completes Part II of Form 8332, the noncustodial parent must attach a copy of this form to his or her tax return for each succeeding year in which the noncustodial parent claims the exemption.

The parent who receives the release of claim to the child's exemption may claim the exemption **only** if the other tests in the Form 1040 or 1040A Instructions for dependency exemptions are met.

For more information, get **Publication 504,** Tax Information for Divorced or Separated Individuals.

Department of the Treasury
TD F 90-22.1 (9-83)
SUPERSEDES ALL PREVIOUS EDITIONS

REPORT OF FOREIGN BANK AND FINANCIAL ACCOUNTS

For the calendar year 19
Do not file this form with your Federal Tax Return

Form Approved: OMB No. 1505-0021

This form should be used to report financial interest in or signature authority or other authority over one or more bank accounts, securities accounts, or other financial accounts in foreign countries as required by Department of the Treasury Regulations (31 CFR 103). You are not required to file a report if the aggregate value of the accounts did not exceed $5,000. Check all appropriate boxes. SEE INSTRUCTIONS ON BACK FOR DEFINITIONS. File this form with Dept. of the Treasury, P.O. Box 1918, Memphis, TN 38101.

1. Name (Last, First, Middle)	2. Social security number or employer identification number if other than individual	3. Name in item 1 refers to ☐ Individual ☐ Partnership ☐ Corporation ☐ Fiduciary
4. Address (Street, City, State, Country, ZIP)		

5. ☐ I had signature authority or other authority over one or more foreign accounts, but I had no "financial interest" in such accounts (see instruction J). Indicate for these accounts:

(a) Name and social security number or taxpayer identification number of each owner

(b) Address of each owner

(Do not complete item 9 for these accounts)

6. ☐ I had a "financial interest" in one or more foreign accounts owned by a domestic corporation, partnership or trust which is required to file TD F 90-22.1. (See instruction L). Indicate for these accounts

(a) Name and taxpayer identification number of each such corporation, partnership or trust

(b) Address of each such corporation, partnership or trust

(Do not complete item 9 for these accounts)

7. ☐ I had a "financial interest" in one or more foreign accounts, but the total maximum value of these accounts (see instruction I) did not exceed $10,000 at any time during the year. (If you checked this box, do not complete item 9).

8. ☐ I had a "financial interest" in 25 or more foreign accounts. (If you checked this box, do not complete item 9.)

9. If you had a "financial interest" in one or more but fewer than 25 foreign accounts which are required to be reported, and the total maximum value of the accounts exceeded $10,000 during the year (see instruction I), write the total number of those accounts in the box below:
Complete items (a) through (f) below for one of the accounts and attach a separate TD F 90-22.1 for each of the others.
Items 1, 2, 3, 9, and 10 must be completed for each account.
Check here if this is an attachment. ☐

(a) Name in which account is maintained	(b) Name of bank or other person with whom account is maintained
(c) Number and other account designation, if any	(d) Address of office or branch where account is maintained

(e) Type of account. (If not certain of English name for the type of account, give the foreign language name and describe the nature of the account. Attach additional sheets if necessary.)

☐ Bank Account ☐ Securities Account ☐ Other (specify)

(f) Maximum value of account (see instruction I)

☐ Under $10,000 ☐ $10,000 to $50,000 ☐ $50,000 to $100,000 ☐ Over $100,000

10. Signature	11. Title (Not necessary if reporting personal account)	12. Date

PRIVACY ACT NOTIFICATION

Pursuant to the requirements of Public Law 93-579, (Privacy Act of 1974), notice is hereby given that the authority to collect information on TD F 90-22.1 in accordance with 5 U.S.C. 552(e)(3) is Public Law 91-508; 31 U.S.C. 1121; 5 U.S.C. 301, 31 CFR Part 103.

The principal purpose for collecting the information is to assure maintenance of reports or records where such reports or records have a high degree of usefulness in criminal, tax, or regulatory investigations or proceedings. The information collected may be provided to those officers and employees of any constituent unit of the Department of the Treasury who have a need for the records in the performance of their duties. The records may be referred to any other department or agency of the Federal Government upon the request of the head of such department or agency for use in a criminal, tax, or regulatory investigation or proceeding.

Disclosure of this information is mandatory. Civil and criminal penalties, including under certain circumstances a fine of not more than $500,000 and imprisonment of not more than five years, are provided for failure to file a report, supply information, and for filing a false or fraudulent report.

Disclosure of the social security number is mandatory. The authority to collect this number is 31 CFR 103. The social security number will be used as a means to identify the individual who files the report.

INSTRUCTIONS

A. Who Must File a Report—Each United States person who has a financial interest in or signature authority or other authority over bank, securities, or other financial accounts in a foreign country, which exceeds $5,000 in aggregate value at any time during the calendar year, must report that relationship each calendar year by filing TD F 90-22.1 with the Department of the Treasury on or before June 30, of the succeeding year.

An officer or employee of a commercial bank which is subject to the supervision of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, or the Federal Deposit Insurance Corporation need not report that he has signature or other authority over a foreign bank, securities or other financial account maintained by the bank unless he has a personal financial interest in the account.

In addition, an officer or employee of a domestic corporation whose securities are listed upon national securities exchanges or which has assets exceeding $1 million and 500 or more shareholders of record need not file such a report concerning his signature authority over a foreign financial account of the corporation, if he has no personal financial interest in the account and has been advised in writing by the chief financial officer of the corporation that the corporation has filed a current report which includes that account.

B. United States Person—The term "United States person" means (1) a citizen or resident of the United States, (2) a domestic partnership, (3) a domestic corporation, or (4) a domestic estate or trust.

C. When and where to File—This report shall be filed on or before June 30 each calendar year with the Department of the Treasury, Post Office Box 1918, Memphis, TN. 38101, or it may be hand carried to any local office of the Internal Revenue Service for forwarding to the Department of the Treasury, Memphis, TN.

D. Account in a Foreign Country—A "foreign country" includes all geographical areas located outside the United States, Guam, Puerto Rico, and the Virgin Islands.

Report any account maintained with a bank (except a military banking facility as defined in instruction E) or broker or dealer in securities that is located in a foreign country, even if it is a part of a United States bank or other institution. Do not report any account maintained with a branch, agency, or other office of a foreign bank or other institution that is located in the United States, Guam, Puerto Rico, and the Virgin Islands.

E. Military Banking Facility—Do not consider as an account in a foreign country, an account in an institution known as a "United States military banking facility" (or "United States military finance facility") operated by a United States financial institution designated by the United States Government to serve U.S. Government installations abroad, even if the United States military banking facility is located in a foreign country.

F. Bank, Financial Account—The term "bank account" means a savings, demand, checking, deposit, loan or any other account maintained with a financial institution or other person engaged in the business of banking. It includes certificates of deposit.

The term "securities account" means an account maintained with a financial institution or other person who buys, sells, holds, or trades stock or other securities for the benefit of another.

The term "other financial account" means any other account maintained with a financial institution or other person who accepts deposits, exchanges or transmits funds, or acts as a broker or dealer for future transactions in any commodity on (or subject to the rules of) a commodity exchange or association.

G. Financial Interest—A financial interest in a bank, securities, or other financial account in a foreign country means an interest described in either of the following two paragraphs:

(1) A United States person has a financial interest in each account for which such person is the owner of records or has legal title, whether the account is maintained for his or her own benefit or for the benefit of others including non-United States persons. If an account is maintained in the name of two persons jointly, or if several persons each own a partial interest in an account, each of those United States persons has a financial interest in that account.

(2) A United States person has a financial interest in each bank, securities, or other financial account in a foreign country for which the owner of record or holder of legal title is: (a) a person acting as an agent, nominee, attorney, or in some other capacity on behalf of the U.S. person; (b) a corporation in which the United States person owns directly or indirectly more than 50 percent of the total value of shares of stock; (c) a partnership in which the United States person owns an interest in more than 50 percent of the profits (distributive share of income), or (d) a trust in which the United States person either has a present beneficial interest in more than 50 percent of the assets or from which such person receives more than 50 percent of the current income.

H. Signature or Other Authority Over an Account—

Signature Authority—A person has signature authority over an account if such person can control the disposition of money or other property in it by delivery of a document containing his or here signature (or his or her signature and that of one or more other persons) to the bank or other person with whom the account is maintained.

Other authority exists in a person who can exercise comparable power over an account by direct communication to the bank or other person with whom the account is maintained, either orally or by some other means.

I. Account Valuation—For items 7, 9, and Instruction A, the maximum value of an account is the largest amount of currency and non-monetary assets that appear on any quarterly or more frequent account statement issued for the applicable year. If periodic account statements are not so issued, the maximum account asset value is the largest amount of currency and non-monetary assets in the account at any time during the year. Convert foreign currency by using the official exchange rate at the end of the year. In valuing currency of a country that uses multiple exchange rates, use the rate which would apply if the currency in the account were converted into United States dollars at the close of the calendar year.

The value of stock, other securities or other non-monetary assets in an account reported on TD F 90-22.1 is the fair market value at the end of the calendar year, or if withdrawn from the account, at the time of the withdrawal.

For purposes of items 7, 9, and Instruction A, if you had a financial interest in more than one account, each account is to be valued separately in accordance with the foregoing two paragraphs.

If you had a financial interest in one or more but fewer than 25 accounts, and you are unable to determine whether the maximum value of these accounts exceeded $10,000 at any time during the year, check item 9 (do not check item 7) and complete Item 9 for each of these accounts.

J. United States Persons with Authority Over but No Interest in an Account—Except as provided in Instruction A and the following paragraph, you must state the name, address, and identifying number of each owner of an account over which you had authority, but if you check item 5 for more than one account of the same owner, you need identify the owner only once.

If you check item 5 for one or more accounts in which no United States person had a financial interest, you may state on the first line of this item, in lieu of supplying information about the owner, "No U.S. person had any financial interest in the foreign accounts." This statement must be based upon the actual belief of the person filing this form after he or she has taken reasonable measures to endure its correctness.

If you check item 5 for accounts owned by a domestic corporation and its domestic and/or foreign subsidiaries, you may treat them as one owner and write in the space provided, the name of the parent corporation, followed by "and related entities," and the identifying number and address of the parent corporation.

K. Consolidated Reporting—A corporation which owns directly or indirectly more than 50 percent interest in one or more other entities will be permitted to file a consolidated report on TD F 90-22.1, on behalf of itself and such other entities provided that a listing of them is made part of the consolidated report. Such reports should be signed by an authorized official of the parent corporation.

If the group of entities covered by a consolidated report has a financial interest in 25 or more foreign financial accounts, the reporting corporation need only note that fact on the form, it will, however, be required to provide detailed information concerning each account when so requested by the Secretary or his delegate.

L. Avoiding Duplicate Reporting—If you had financial interest (as defined in instruction G(2)(b), (c) or (d) in one or more accounts which are owned by a domestic corporation, partnership or trust which is required to file TD F 90-22.1 with respect to these accounts in lieu of completing item 9 for each account you may check item 6 and provide the required information.

M. Providing Additional Information—Any person who does not complete item 9, shall when requested by the Department of the Treasury provide the information called for in item 9.

N. Signature (Item 10)—*This report must be signed* by the person named in Item 1. If the report is being filed on behalf of a partnership, corporation, or fiduciary, it must be signed by an authorized individual.

O. Penalties—For criminal penalties for failure to file a report, supply information, and for filing a false or fraudulent report see 31 U.S.C. 5322(a), 31 U.S.C. 5322(b), and 18 U.S.C. 1001.

Description of Some Principal Federal Tax Forms

SS-4 (Rev. 9-85)

Application for Employer Identification Number.

Used to apply for a Federal identification number for employers, trusts, estates, corporations, partnerships, nonprofit organizations, and certain others.

Separate instructions

W–2 (1985)

Wage and Tax Statement.

Used to report wages, tips and other compensation, third-party sick pay, allocated tips, employee social security tax, income tax withheld, state or city income tax withheld, and to support credit shown on individual income tax return.

Separate instructions

W–2c

Statement of Corrected Income and Tax Amounts.

Used to correct previously filed Forms W-2, W-2P, W-2AS, W-2GU, and W-2VI.

W–2P (1985)

Statement For Recipients of Annuities, Pensions, Retired Pay, or IRA Payments.

Used to report annuities, pensions, retirement pay, Federal and state income tax withheld.

Separate instructions

W–3 (1985)

Transmittal of Income and Tax Statements.

Used by employers and other payers to transmit wage and income tax withheld statements (Forms W-2 and W-2P).

W–3c

Transmittal of Corrected Income and Tax Statements.

Used by employers and other payers to transmit corrected income and tax statements (Forms W-2c).

W–3G (1985)

Transmittal of Certain Information Returns.

Used by payers of gambling winnings to transmit Form W-2G to Service Centers. Also used by payers of total distributions (those that close the account) from retirement or profit-sharing plans or individual retirement arrangements to transmit Forms 1099-R to Service Centers. **Note:** *Will be obsoleted for 1986. Forms W-2G and 1099-R will be transmitted with Form 1096.*

W–4 (Rev. 1-86)

Employee's Withholding Allowance Certificate.

Filed by employee with employer so that proper amount of income tax can be withheld from wages. Also used by employee to certify that he or she had no liability for income tax for preceding tax year and anticipates that no liability will be incurred for current tax year (qualifying employee will then be exempt from Federal income tax withholding).

W–4P (Rev. 1-86)

Withholding Certificate for Pension or Annuity Payments.

Filed with payers of pension or annuity payments so that proper amount of Federal income tax can be withheld. Also used to claim exemption from withholding on any pension or annuity payment.

W-4S (Rev. 1-86)

Request for Federal Income Tax Withholding from Sick Pay.

Filed with third-party payers of sick pay to request withholding of a specific amount from sick pay payments.

W–5 (1986)

Earned Income Credit Advance Payment Certificate.

Used by employee to request that employer furnish advance payment of earned income credit with the employee's pay.

W–9 (Rev. 7-84)

Payer's Request for Taxpayer Identification Number and Certification.

Used by a payer of interest, dividends, or certain other payments to request payee's identification number. Payees may use this form to certify that their taxpayer identification number is correct and/or that they are not subject to backup withholding, or to claim exemption from backup withholding.

706 (Rev. 3-85)

(For decedents dying after Dec. 31, 1981)

United States Estate Tax Return.

Used for the estate of a deceased United States resident or citizen.

Separate instructions

709 (Rev. 6-85)

United States Gift Tax Return.

Used to report gifts made after Dec. 31, 1981, in excess of $10,000, and gifts of a future interest in property regardless of value.

Separate instructions

709–A (Rev. 6-85)

United States Short Form Gift Tax Return.

Used by married couples to report nontaxable gifts of $20,000 or less per donee.

712 (Rev. 9-83)

Life Insurance Statement.

Used with Form 706 or Form 709.

940 (1985)

Employer's Annual Federal Unemployment (FUTA) Tax Return.

Used by employers to report FUTA tax. A two-part set containing an original and duplicate copy of Form 940, with instructions for preparation.

941c (Rev. 7-85)

Statement to Correct Information Previously Reported on the Employer's Federal Tax Return.

Used to correct social security wage, social security tax and income tax reports previously submitted by employers.

943 (1985)

Employer's Annual Tax Return for Agricultural Employees.

Used by agricultural employers to report social security and income taxes withheld.

990 (1985)

Return of Organization Exempt From Federal Income Tax (Except Private Foundation).

Used by organizations exempt under IRC section 501(a) and described in section 501(c) other than private foundations.

Separate instructions

Schedule A (Form 990) (1985)

Organization Exempt Under 501(c)(3) (Supplementary Information).

Used by organizations described in IRC section 501(c)(3) (other than private foundations filing Form 990-PF).

Separate instructions

990–C (1985)

Farmers' Cooperative Association Income Tax Return.

Used by farmers' cooperative marketing and purchasing associations whether or not the organization is subject to income tax.

Separate instructions

990–PF (1985)

Return of Private Foundation or Section 4947(a)(1) Trust Treated as a Private Foundation.

Used by private foundations and section 4947(a)(1) trusts.

Separate instructions

990–T (1985)

Exempt Organization Business Income Tax Return.

Used by exempt organizations with unrelated business income (under section 511 of the IRC).

Separate instructions

1040 (1985)

U.S. Individual Income Tax Return.

Used by citizens and residents of the United States to report income tax. Also see Form 1040A and Form 1040EZ.

Separate instructions

Sch. A (Form 1040) (1985)

Itemized Deductions.

Used to report itemized deductions (medical and dental expenses, taxes, contributions, interest, casualty and theft losses, and miscellaneous deductions).

Separate instructions

Sch. B (Form 1040) (1985)

Interest and Dividend Income.

Used to list gross dividends (if in excess of $400), to exclude stock dividends from a reinvestment plan of a qualified public utility, and to report interest income (if in excess of $400) received. Also used to answer questions about foreign accounts and foreign trusts.

Separate instructions

Sch. C (Form 1040) (1985)

Profit or (Loss) from Business or Profession.

Used to figure profit or (loss) from business or profession.

Separate instructions

Sch. D (Form 1040) (1985)

Capital Gains and Losses and Reconciliation of Forms 1099-B.

Used to report details of gain or (loss) from sales and exchanges of capital assets, to reconcile Forms 1099-B with tax returns, and to compute post-1969 capital loss carryovers from 1985 to 1986.

Separate instructions

Sch. E (Form 1040) (1985)

Supplemental Income Schedule.

Used to report income from rents, royalties, partnerships, S corporations, estates, and trusts.

Separate instructions

Sch. F (Form 1040) (1985)

Farm Income and Expenses.

Used to figure profit or (loss) from farming.

Separate instructions

Sch. G (Form 1040) (1985)

Income Averaging.

Used to determine whether tax figured under the averaging provisions is the most advantageous method.

Sch. R (Form 1040) (1985)

Credit for the Elderly and the Permanently and Totally Disabled.

Used to figure the credit for the elderly for individuals 65 or over and for individuals under 65 who retired on permanent and total disability and received taxable disability income.

Separate instructions

Sch. SE (Form 1040) (1985)

Computation of Social Security Self-Employment Tax.

Used to figure self-employment tax.

Separate instructions

Sch. W (Form 1040) (1985)

Deduction for a Married Couple When Both Work.

Used to figure the deduction allowed to a married couple filing jointly when both have qualified earned income.

1040A (1985)

US Individual Income Tax Return.

Used by citizens and residents of the United States to report income tax. Also see Form 1040EZ.

Separate instructions

1040-ES (1986)

Estimated Tax for Individuals.

Used to make estimated tax payments as a means for paying currently any income tax (including self-employment tax and the alternative minimum tax) due in excess of the tax withheld from wages, salaries, and other payments for personal services. It is not required unless the total tax exceeds withholding (if any) and applicable tax credits by $500 or more.

1040EZ (1985)

Income Tax Return for Single filers with no dependents.

Used by citizens and residents of the United States to report income tax. Also see Form 1040A.

Separate instructions

1040NR (1985)

U.S. Nonresident Alien Income Tax Return.

Used by all nonresident alien individuals who file a U.S. tax return, whether or not engaged in a trade or business within the United States. Also used as required for filing nonresident alien fiduciary (estate and trust) returns.

Separate instructions

1040X (Rev. 10-85)

Amended U.S. Individual Income Tax Return.

Used to claim refund of income taxes, pay additional income taxes, or designate dollar(s) to the Presidential Election Campaign Fund.

Separate instructions

1041 (1985)

U.S. Fiduciary Income Tax Return (For Estates and Trusts).

Used by a fiduciary for domestic estate or domestic trust.

Separate instructions

Sch. D (Form 1041) (1985)

Capital Gains and Losses.

Used to report details of gain or (loss) from sales or exchanges of capital assets.

Sch. J (Form 1041) (1985)

Trust Allocation of an Accumulation Distribution (IRC Section 665).

Used for domestic complex trusts.

Sch. K–1 (Form 1041) (1985)

Beneficiary's Share of Income, Deductions, Credits, etc.

Used to report each beneficiary's share of the income, deductions, credits, and items of tax preference from the estate or trust.

1045 (Rev. 11-85)

Application for Tentative Refund.

Used by taxpayers (other than corporations) to apply for a tentative refund from the carryback of a net operating loss, unused general business credit, unused research credit, or overpayment of tax due to a claim of right adjustment under section 1341(b)(1).

1065 (1985)

U.S. Partnership Return of Income.

Used by partnerships as an information return.

Separate instructions

Sch. D (Form 1065) (1985)

Capital Gains and Losses.

Used to show partnership capital gains and losses that are not specially allocated.

Sch. K (Form 1065) (1985)

Partners' Share of Income, Credits, Deductions, etc.

Used to show partners' shares of income, credits, deductions, etc.

Sch. K–1 (Form 1065) (1985)

Partner's Share of Income, Credits, Deductions, etc.

Used to show partner's share of income, credits, deductions, etc.

Separate instructions

1096 (1985)

Annual Summary and Transmittal of U.S. Information Returns.

Used to summarize and transmit Forms 1098, 1099-A, 1099-B, 1099-DIV, 1099-G, 1099-INT, 1099-MISC, 1099-OID, 1099-PATR, and 5498.

Instructions for Form 1099 Series, 1098, 5498, and 1096 (1985).

Contains specific instructions for filing all Forms 1099, 5498, and 1096.

1098 (1985)

Mortgage Interest Statement.

Used to report mortgage interest of $600 or more received in the course of a trade or business from an individual.

1099-A (1985)

Information Return for Acquisition or Abandonment of Secured Property.

Used by persons who, in the course of their trade or business, lend money secured by property to report the acquisition of an interest in or the abandonment of such property.

1099–B (1985)

Statement for Recipients of Proceeds from Broker and Barter Exchange Transactions.

Used by a broker to report proceeds from the sale or redemption of securities, commodities, or futures contracts, or by a barter exchange to report exchanges of goods or services.

1099–DIV (1985)

Statement for Recipients of Dividends and Distributions.

Used to report dividends and distributions (including distributions in liquidation).

1099–G (1985)

Statement for Recipients of Certain Government Payments.

Used by Federal, state, or local governments to report payments of unemployment compensation; state and local income tax refunds, offsets, or credits; discharges of indebtedness by the Federal Government; taxable grants; or agriculture subsidy payments.

1099–INT (1985)

Statement for Recipients of Interest Income.

Used to report interest income.

1099–MISC (1985)

Statement for Recipients of Miscellaneous Income.

Used to report rents, royalties, prizes and awards, fishing boat proceeds, medical and health care payments by medical and health care insurers, nonemployee compensation, substitute payments received by a broker in lieu of dividends or tax-exempt interest on behalf of a customer while a short sale was open, and to report that the payer made direct sales of $5,000 or more of consumer products to a buyer for resale.

1099–OID (1985)

Statement for Recipients of Original Issue Discount.

Used to report original issue discount.

1099–PATR (1985)

Statement for Recipients (Patrons) of Taxable Distributions Received from Cooperatives.

Used to report patronage dividends.

1099–R (1985)

Statement for Recipients of Total Distributions from Profit-Sharing, Retirement Plans, Individual Retirement Arrangements, Etc.

Used to report total distributions from profit-sharing, retirement plans, and individual retirement arrangements, etc.

1116 (1985)

Computation of Foreign Tax Credit—Individual, Fiduciary, or Nonresident Alien Individual.

Used to figure and support the foreign tax credit claimed for the amount of any income, war profits, and excess profits taxes paid or accrued during the tax year to any foreign country or U.S. possession.

Separate instructions

1120 (1985)

U.S. Corporation Income Tax Return.

Used by a corporation to report income tax.

Separate instructions

Sch. D (Form 1120) (1985)

Capital Gains and Losses.

Used by a taxpayer who files either Forms 1120, 1120-A, 1120-IC-DISC, 1120F, 1120-FSC, 1120-H, 1120L, 1120M, 1120-POL, 990-C, or certain Forms 990-T, to report details of gain or (loss) from sales or exchanges of capital assets, and to figure the alternative tax.

Sch. PH (Form 1120) (1985)

Computation of U.S. Personal Holding Company Tax.

Used to compute personal holding company tax; filed with the income tax return of every personal holding company.

1120–A (1985)

U.S. Short-Form Corporation Income Tax Return.

Used by certain smaller corporations to report income tax.

Separate instructions

1120-IC-DISC (1985)

Interest Charge Domestic International Sales Corporation Return.

Used by an IC-DISC to report information required by IRC section 6011(c).

Sch. K (Form 1120-IC-DISC) (1985)

Shareholder's Statement of IC-DISC Distribution.

Used to report deemed and actual distributions from an IC-DISC to shareholders and deferred DISC income to shareholders.

Sch. P (Form 1120-IC-DISC)(1985)

Computation of Inter-company Transfer Price or Commission.

Used to figure inter-company transfer prices or commissions under IRC sections 994(a)(1) and (2).

1120F (1985)

U.S. Income Tax Return of a Foreign Corporation.

Used by foreign corporations to report income tax.

Separate instructions

1120-FSC (1985)

U.S. Income Tax Return of a Foreign Sales Corporation

Used by an FSC to report its income and deductions and to report and pay income tax.

Separate instructions

1120S (1985)

U.S. Income Tax Return for an S Corporation.

Used by S corporations to report taxes under Subchapter S of the IRC and as an information return.

Separate instructions

Sch. D (Form 1120S) (1985)

Capital Gains and Losses.

Used by S corporations to report sales or exchanges of capital assets and gains on distributions to shareholders of appreciated assets that are capital assets, and to figure the tax imposed on certain capital gains.

Sch. K-1 (Form 1120S) (1985)

Shareholder's Share of Income, Credits, Deductions, etc.

Used to show shareholder's share of income, credits, deductions, etc.

Separate instructions

1120-W (Worksheet) (1986)

Corporation Estimated Tax.

Used as a worksheet by corporations to compute estimated tax liability; not required to be filed. Corporations should keep it for their records.

1120X (10-85 expected rev. date)

Amended U.S. Corporation Income Tax Return.

Used by corporations to amend a previously filed Form 1120 or 1120-A.

1128 (Rev. 8-84)

Application for Change in Accounting Period.

Used by taxpayers to apply for a change in accounting period.

1139 (Rev. 1-85)

Corporation Application for Tentative Refund.

Used by corporations that have certain carrybacks and desire a quick refund of taxes.

1310 (Rev. 9-85)

Statement of Person Claiming Refund Due a Deceased Taxpayer.

Used by a claimant to secure payment of refund on behalf of a deceased taxpayer.

2106 (1985)

Employee Business Expenses.

For use by employees to support deductions from income tax for travel, transportation, outside salesperson and reimbursed expenses (except moving expenses).

2119 (1985)

Sale or Exchange of Principal Residence.

For use by individuals who sold their principal residence. Also used by those individuals 55 or older who elect to exclude gain on the sale of their principal residence.

2120 (Rev. 8-84)

Multiple Support Declaration.

Used as a statement disclaiming as an income tax exemption an individual to whose support the taxpayer and others have contributed.

2210 (1985)

Underpayment of Estimated Tax by Individuals.

Used by individuals to see if they paid enough estimated tax and, if not, to figure the penalty.

2220 (1985)

Underpayment of Estimated Tax by Corporations.

Used by a corporation to determine whether it paid enough estimated tax, whether it is subject to the penalty for underpayment of estimated tax, and how much penalty it may owe for any underpayment.

2350 (1985)

Application for Extension of Time To File U.S. Income Tax Return.

Used by U.S. citizens and U.S. resident aliens abroad who expect to qualify for special tax treatment to obtain an extension of time for filing an income tax return.

2441 (1985)

Credit for Child and Dependent Care Expenses.

Used to figure the credit for child and dependent care expenses.

2555 (1985)

Foreign Earned Income.

Used by U.S. citizens and U.S. resident aliens who qualify for the foreign earned income exclusion or the housing exclusion or deduction.

Separate instructions

2688 (1985)

Application for Extension of Time To File U.S. Individual Income Tax Return.

Used to apply for an additional extension of time to file Form 1040.

2758 (Rev. 10-85)

Application for Extension of Time To File U.S. Partnership, Fiduciary, and Certain Exempt Organization Returns.

Used to apply for an extension of time to file Form 1065, Form 1041, and certain exempt organization returns.

2848 (Rev. 10-83)

Power of Attorney and Declaration of Representative.

Used as an authorization for one person to act for another in any tax matter (except alcohol and tobacco taxes and firearms activities).

Separate instructions

3468 (1985)

Computation of Investment Credit.

Used by individuals, estates, trusts, and corporations claiming a regular or business energy investment credit. See also Form 3800, General Business Credit.

Separate instructions

3800 (1985)

General Business Credit.

Used to compute the general business credit, which is composed of investment credit (Form 3468), jobs credit (Form 5884), credit for alcohol used as fuel (Form 6478), and employee stock ownership plan (ESOP) credit (Form 8007). Also used to report carryovers.

3903 (1985)

Moving Expense Adjustment.

For optional use to support deductions from income for expenses of travel, transportation (including meals and lodging), and certain expenses of selling an old residence and buying a new residence for employees or self-employed individuals moving to a new job location in the U.S. or its possessions.

3903F (1985)

Foreign Moving Expense Adjustment.

For optional use by U.S. citizens or resident aliens moving to a new principal work place outside the United States or its possessions.

4136 (1985)

Computation of Credit for Federal Tax on Gasoline and Special Fuels.

Used by individuals, estates, trusts, or corporations, including S corporations, and interest charge DISCs, to claim credit for Federal excise tax on the number of gallons of gasoline and special fuels used in business. Also used to claim the credit for qualified diesel-powered highway vehicles.

4137 (1985)

Computation of Social Security Tax on Unreported Tip Income.

Filed by an employee who received tips subject to social security tax but did not report them to his or her employer, and to report any allocated tips shown on his or her Form W-2.

4255 (9-85 expected rev. date)

Recapture of Investment Credit.

Used by individuals, estates, trusts, or corporations to recapture the regular or energy investment credit taken on property that ceases to be qualified property, e.g., property disposed of before the end of the useful life used in computing the credit, or property for which the percentage of business use decreases. The tax must be increased if the credit allowed is more than the credit allowable at the time of disposition.

4466 (1985)

Corporation Application for Quick Refund of Overpayment of Estimated Tax.

Used to apply for a "quick" refund of overpaid estimated tax. (Must be filed before the regular tax return is filed.)

4469 (1985)

Computation of Excess Hospital Insurance Benefits Tax Credit.

Used by railroad employee representatives and "qualified" U.S. Government employees to figure their refund of excess hospital insurance benefits tax.

4506 (Rev. 10-85)

Request for Copy of Tax Form or Tax Account Information.

Used to request copies of tax returns. Also used to request certain information from tax returns.

4562 (1985)

Depreciation and Amortization.

For use by individuals, estates and trusts, partnerships, and corporations claiming depreciation, amortization, and section 179 expense deduction. Also used to provide required information for automobiles and all other "listed property."

4563 (1985)

Exclusion of Income from Sources in United States Possessions.

Used by U.S. citizens who qualify for the possession exclusion under IRC section 931.

4626 (1985)

Computation of Minimum Tax—Corporations.

Used generally by corporations to figure minimum tax when tax preferences are more than $10,000.

4684 (1985)

Casualties and Thefts.

For use by all taxpayers for reporting gains and losses from casualties and thefts.

Separate instructions

4782 (Rev. 3–85)

Employee Moving Expense Information.

Used by employers to show employees the amount of any reimbursement or payment made to an employee, a third party for the employee's benefit, or the value of services furnished in-kind, for moving expenses during the calendar year.

4797 (1985)

Gains and Losses From Sales or Exchanges of Assets Used in a Trade or Business and Involuntary Conversions.

Used to report details of gain or (loss) from sales, exchanges, or involuntary conversions (other than casualties and thefts) of noncapital assets and involuntary conversions (other than casualties and thefts) of capital assets. Also used to figure recapture amounts under IRC sections 179 and 280F when the business use of property drops to 50 percent or less.

Separate instructions

4835 (1985)

Farm Rental Income and Expenses.

Used by landowner (or sublessor) to report farm rental income based on crops or livestock produced by the tenant where the landowner (or sublessor) does not materially participate in the operation or management of the farm.

4868 (1985)

Application for Automatic Extension of Time To File U.S. Individual Income Tax Return.

Used to apply for an automatic 4-month extension of time to file Form 1040.

4952 (1985)

Investment Interest Expense Deduction.

Used by an individual, estate, or trust to figure the deduction limitation for interest expense on funds borrowed to purchase or carry property held for investment.

4970 (1985)

Tax on Accumulation Distribution of Trusts.

For use by a beneficiary of a domestic or foreign trust to figure the tax attributable to an accumulation distribution.

4972 (1985)

Special 10-Year Averaging Method.

Used to determine the income tax on the ordinary income portion of lump-sum distributions.

Separate instructions

5329 (1985)

Return for Individual Retirement Arrangement Taxes.

Used to report the various individual retirement arrangement taxes under IRC sections 408(f), 4973, and 4974.

Separate instructions

5330 (Rev. 5–84)

Return of Initial Excise Taxes Related to Pension and Profit-Sharing Plans.

Used to report excise taxes imposed by IRC sections 4971, 4973(a)(2), 4975, and 4978.

5498 (1985)

Individual Retirement Arrangement Information.

Used to report contributions to IRAs, SEPs, and DECs.

5500 (1985)

Annual Return/Report of Employee Benefit Plan.

Used to report on deferred compensation plans and welfare plans that have at least 100 participants.

Separate instructions

Sch. A (Form 5500) (1985)

Insurance Information.

Used as an attachment to Forms 5500, 5500-C, or 5500-R to report information about insurance contracts that are part of a qualified deferred compensation plan.

Sch. B (Form 5500) (1985)

Actuarial Information.

Used to report actuarial information with respect to a defined benefit plan. It is attached to Form 5500, 5500-C, or 5500-R.

Separate instructions

Sch. P (Form 5500) (1985)

Annual Return of Fiduciary of Employee Benefit Trust.

Used as an attachment to Forms 5500, 5500-C, and 5500-R to satisfy reporting requirements under IRC section 6033(a) and start statute of limitations under IRC section 6501(a).

Sch. SSA (Form 5500) (1985)

Registration Statement Identifying Separated Participants with Deferred Vested Benefits.

Used as an attachment to Forms 5500, 5500-C, or 5500-R to list the employees who separated from employment and have a deferred vested benefit in the employer's plan of deferred compensation.

5500–C (1985)

Return/Report of Employee Benefit Plan.

Used to report on deferred compensation plans and welfare plans that have fewer than 100 participants.

Separate instructions

5500–R (1985)

Registration Statement of Employee Benefit Plan.

Used to report on deferred compensation plans and welfare plans that have fewer than 100 participants. This form is filed for plan years when Form 5500-C is not required to be filed.

Separate instructions

5544 (1985)

Multiple Recipient Special 10-Year Averaging Method.

Used to determine income tax on the ordinary income portion of lump-sum distributions received by a multiple recipient.

Separate instructions

5558 (Rev. 9–84)

Application for Extension of Time to File Certain Employee Plan Returns.

Used to request an extension of time to file Forms 5500, 5500-C, 5500-R, and 5330.

5695 (1985)

Residential Energy Credit.

Used by individual taxpayers to claim a credit against their tax for qualified energy-saving property.

5884 (1985)

Jobs Credit.

Used by individuals, estates, trusts, and corporations claiming a jobs credit, and any S corporation, partnership, estate, or trust that apportions the credits among its shareholders, partners, or beneficiaries. See also Form 3800, General Business Credit.

6198 (1985)

Computation of Deductible Loss From an Activity Described in Section 465(c).

Used by taxpayers to determine the overall profit (loss) from an at-risk activity, the amount at risk, and the deductible loss.

Separate instructions

6251 (1985)

Alternative Minimum Tax Computation.

Used by individuals, estates, and trusts to report tax preference items and to figure their alternative minimum tax liability.

6252 (1985)

Computation of Installment Sale Income.

Used by taxpayers other than dealers, who are reporting a sale or other disposition of real or personal property on the installment method.

6765 (1985)

Credit for Increasing Research Activities (or for claiming the orphan drug credit).

Used by individuals, estates, trusts, and corporations to claim a credit for increasing research activities for a trade or business. Also used to claim the orphan drug credit.

6781 (1985)

Gains and Losses from Section 1256 Contracts and Straddles.

Used by all taxpayers that held IRC section 1256 contracts or straddles during the tax year.

7004 (Rev. 10–85)

Application for Automatic Extension of Time To File Corporation Income Tax Return.

Used by corporations and certain exempt organizations to request an automatic extension of 6 months to file their income tax returns.

8007 (9-85 expected rev. date)

Credit for Employee Stock Ownership Plan.

Used by corporations to take a tax credit for transferring employer securities to its employee stock ownership plan. See also Form 3800, General Business Credit.

8027 (1985)

Employer's Annual Information Return of Tip Income and Allocated Tips.

Used by large food or beverage establishments to report certain receipts from food or beverage operations, tips reported by employees, and in certain cases, tips allocated to employees.

8082 (Rev. 11-85)

Notice of Inconsistent Treatment or Amended Return.

Used by partners and S corporation shareholders to report partnership and S corporation items treated differently on the partner's or S shareholder's return than on the partnership return or the S corporation return. Also used to report partnership or S corporation items that are being changed from a previously filed return.

Separate instructions

8264 (Rev. 8-85)

Application for Registration of a Tax Shelter.

Used by tax shelter organizers to register certain tax shelters with the IRS, for purposes of receiving a tax shelter registration number.

Separate instructions

8271 (11-85 expected rev. date)

Investor Reporting of Tax Shelter Registration Number.

Used by persons who have purchased or otherwise acquired an interest in a tax shelter required to be registered to report the tax shelter registration number. Form is attached to any tax return on which any tax benefits or income attributable to the tax shelter are claimed or reported.

8275 (4-85)

Disclosure Statement Under Section 6661.

Filed by individuals, corporations (including S corporations), partnerships, estates, trusts, regulated investment companies, and real estate investment trusts, to disclose items that could cause a substantial understatement of income tax, in order to avoid the penalty under IRC section 6661.

Separate instructions

8283 (Rev. 10-85)

Noncash Charitable Contributions.

Used by taxpayers to report contributions of property in which the total claimed fair market value of all property contributed exceeds $500.

Separate instructions

8300 (1-85)

Report of Cash Payments Over $10,000 Received in a Trade or Business.

Used to report certain transactions involving the receipt of more than $10,000 in cash or foreign currency in the course of a trade or business.

8332 (2-85)

Release of Claim to Exemption for Child of Divorced or Separated Parents.

Used to release claim to a child's exemption by a parent who has custody of his or her child and might have been entitled to claim the exemption for this child. The form is completed by the parent who has custody of the child and is given to the parent who will claim the exemption.

8396 (1985)

Mortgage Interest Credit.

Used to figure the mortgage interest credit and any carryover to a subsequent year.

8404 (11-85)

Computation of Interest Charge on DISC-Related Deferred Tax Liability.

Used by shareholders of Interest Charge Domestic International Sales Corporations (IC-DISCs) to figure and report their interest on DISC-related deferred tax liability.

TD F 90–22.1 (Rev. 9–83)

Report of Foreign Bank and Financial Accounts.

Filed by any individual, trust, partnership, or corporation that has a financial interest in, or signature authority or other authority over, bank, securities, or other financial accounts in a foreign country, that exceeded $5,000 in aggregate value at any time during the calendar year.

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